

day February 25 1997

swings

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Reshuffle
speculation builds
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TENANT
DIVISION
Pro-Europe stance
under strain
Europe, Page 12

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Weekend FT
The unsolved case
of the grey matter



World Business Newspaper <http://www.FT.com>

IN TOMORROW'S WEEKEND FT

face values: portraits,
watches and beauty spots in
how to spend it magazine

Siemens seeks partner for defence division

German electrical group Siemens is hunting a partner or buyer for its defence electronics business. The division's 5,000 employees, most of them in the UK, have been told that Siemens plans to find potential partners and does not exclude an outright sale. The moves comes after Britain's defence ministry cancelled an order for an electronic warfare system after Siemens Plessey, the group's electronics arm, had spent \$50m (£31m) on development. Page 15

Turks in schools boycott: Turkish children across Germany stayed away from school to protest against a new law which obliges them to apply for residence permits to remain in the country. The Association of Turkish Communities in Germany estimated tens of thousands of children had taken part.

Watchdog for Italian market: Rome is expected to appoint Tommaso Padoa Schioppa chairman of Consob, the stock market watchdog. Mr Padoa Schioppa, deputy director general of the Bank of Italy, will replace Enzo Berlanda, whose five-year term ends today. Page 3

Warner Village to grow in Europe: Warner Village plans to expand across Europe, building over 300 new multiplexes with more than 3,000 screens by 2,000. The company is a joint venture between Warner Bros and Australia's Village Roadshow.

Divorce legalised: Hundreds of Irish couples were expected to file for the dissolution of their broken marriages after divorce was legalised in Roman Catholic Ireland for the first time.

Georgia, Armenia cut off: Ex-Soviet Georgia and Armenia have their natural gas supplies cut off over unpaid bills to a Russian-Turkish joint venture. Armenia said it had ample fuel reserves but Georgia relies on the gas for 50 per cent of generating capacity in winter.

US threatened with litigation: Japan may take the US to the International Court of Justice over an American to impose sanctions on Japanese shipping companies. The sanctions will mean a \$100,000 fine each time a vessel owned or operated by three shipping companies enters a US port from abroad. Page 14

Copper claims denied: The owners of the UK metal broker being probed over the Sumitomo copper scandal deny that Winchester Commodities helped manipulate the market. Charlie Vincent and Ashley Leventi insist Winchester's role was a legitimate "hedge". Page 9

Durable goods orders up: Orders for US durable goods surged 3.6 per cent in January, largely on revised demand for communications equipment and electronic components. The increase followed two months of falls. Page 4

French businessmen investigated: Martin Bouygues, chairman of big French construction group Bouygues and Patrick Le Lay, head of Bouygues-controlled TV station TF1, were put under formal investigation as part of an anti-corruption clampdown. Page 2

Widow wins right to use sperm: Britain's Human Fertilisation and Embryology Authority will let widow Diana Blood, 31, have a baby using her late husband's sperm. The authority initially refused her permission because her husband had not given his written consent.

Slim TV on sale: NEC has started selling the world's thinnest television, with a picture quality the Japanese electronics giant says equals that of ordinary TVs. The Plasma X is 9mm wide. Page 14

Orchestra bows to reality: Vienna Philharmonic Orchestra musicians voted to end their male-only recruitment policy. A harpist will be the first woman admitted. Observer, Page 13

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STOCK MARKET INDICES

■ GOLD

New York Comex
Dow Jones Ind Av 5963.17 (-20.07)
NASDAQ Composite 1331.74 (-6.67)

Europe and Far East

■ DOLLAR

London close 330.75 (33.95)

■ US LUNCHEONTE RATES

■ OTHER RATES

London close 1.6250 (1.6250)

DM 1.5883 (1.5883)

Fr 5.8927 (5.8927)

Yen 1.47575 (1.47575)

Y 120.715 (120.715)

London close 1.62271 (1.62271)

DM 1.58837 (1.58837)

Fr 5.89287 (5.89287)

Yen 1.47589 (1.47589)

Tokyo close Y 121.812 (121.812)

■ NORTH SEA Oil (Argus)

■ STERLING

London close 2.7452 (2.7597)

DM 1.6210 (1.6210)

Fr 5.89252 (5.89252)

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Spain in move to overhaul corporate conduct

By Tom Burns in Madrid

Spain's centre-right government is expected today to set up an independent commission on corporate governance, in an attempt to overhaul the sometimes arcane and opaque conduct of Spanish boardrooms.

Mr Cristobal Montoro, secretary of state for the economy, said the initiative was a key element in a package of deregulatory measures the government will introduce this year to liberalise the domestic economy ahead of monetary union.

The commission - eight members from business and academic circles - will have four months in which to draw up a code of best practice that will be modelled on the UK's 1993 Cadbury report on corporate governance.

Recommendations are likely to include smaller boards with a strong representation of independent directors having full access to the company's business activities, limitations on boardroom remunerations and the creation of internal auditing committees.

"The initiative is tremendously important," said Mr Guillermo de la Désesa, president of Spain's joint chambers of commerce.

"We have political democracy but not corporate democracy."

The widespread perception is that many companies are run by unwieldy boards whose members, bound by family relationships or other ties, are well remunerated in return for little work.

Companies are frequently criticised for lacking transparency and failing to respond to shareholders' interests.

Observers cite Banesto, the large banking group which three years ago was found to have grossly overestimated its assets, as an extreme case which demonstrated the need for reform.

Its former chairman, Mr Mario Conde, who is on bail on fraud charges, packed the board with his nominees when he took control of the bank in 1987.

Mr de la Désesa, the new chairman of the CNMV, Spain's stock market commission, Mr Juan Fernández Armesto, and Mr Santiago Eguizábal, a senior partner of brokers AB Asesores who last year brought Sir Alan Cadbury and other business code experts to Madrid for a forum on corporate governance, have been at the forefront of calls to enforce accountability and disclosure procedures.

The CNMV's Mr Fernández Armesto raised the issue this month of the potential conflict of interest that could result from core shareholdings owned by big domestic banks in listed companies.

These banks could have excessive boardroom control.

The government believes moves to improve corporate governance complement its drive to widen share ownership through privatisation and tax incentives.

The sale two weeks ago of the government's remaining 21 per cent stake in Telefónica was accompanied by the introduction of corporate governance procedures including the appointment of outside directors to the telecoms operator's reduced board.

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R

Chairman of Bouygues and TF1 chief alleged to have misused corporate assets

French businessmen in probe

By David Owen in Paris

Two top French businessmen were placed under formal investigation yesterday, joining a growing list of captains of industry and finance to have suffered this indignity since the start of an anti-corruption clampdown in 1993.

Mr Martin Bouygues, chairman of the big French construction group that bears his name, and Mr Patrick Le Lay, head of TF1, the French commercial television station it controls, were *mis en examen* by a Versailles judge for alleged misuse of corporate assets.

The two men were summoned for questioning on Wednesday as part of a

probe into alleged false invoices involving some 40 companies in the Paris area. Mr Bouygues was held in custody overnight.

A third executive - Mr Philippe Chalandon, commercial director of an arm of Bouygues Offshore, the company's oil and gas contracting unit - was also placed under investigation.

Bouygues would last night make no comment about the decisions, except to emphasise that the men would continue "fully" to exercise their corporate functions. The markets seemed little perturbed: Bouygues shares closed ahead of FF1 at FF1548; Bouygues Offshore was down FF1.70 at FF157.30.

Mr Bouygues has been

under investigation for more than a year in connection with a separate inquiry. This involves allegations that Bouygues may have funnelled money via Swiss bank accounts held by Mr Pierre Bottin, a Lyons businessman who is the son-in-law of Mr Michel Noir, the former mayor of Lyons.

Last February, Bouygues was among the companies fined by the French competition council for price-fixing and other anti-competitive behaviour in public sector projects. The council accused 36 French companies of creating cartels for contracts ranging from the TGV high-speed railway to the Normandy suspension bridge over the Seine. The

company is appealing against the decision.

Bouygues is also one of the companies awarded the contract to build the 80,000-seat Stade de France, which will house the final of the 1998 football World Cup. The European Commission last month started legal action against the French government over its award of the contract, alleging the government ignored EU single market rules. The company recently estimated 1996 profits would reach FF765m (\$11m). In 1995, it reported losses of FF2.9bn, after including FF2.3bn in exceptional provisions.

Yesterday's developments come less than a month after France's supreme court



Bouygues allegations

ruled that bribes did not constitute "misuse of corporate funds" if the company got something in return.

Russian defence chief's future in doubt

By Chrystia Freeland in Moscow

Russian president Boris Yeltsin yesterday summoned a popular general from the Pacific region to the Kremlin, fuelling speculation that the defence minister may soon be sacked.

The meeting with Gen Viktor Chechekov, followed a presidential reprimand earlier this week for Mr Igor Rodionov, minister of defence, for his frequent and sensational public complaints about the financial crisis in the armed forces.

Uncertainty about the minister's

future is part of the nervous anticipation surrounding a cabinet shuffle which has gripped Moscow's political circles ahead of next week's state of the nation address by Mr Yeltsin.

The annual speech has taken on special significance this year following Mr Yeltsin's quintuple heart bypass surgery last November and double pneumonia in January - illnesses which sidelined the Kremlin leader from public life for more than seven months.

Other well placed observers were dubious about the *Izvestia* rumour. One Moscow banker, who played a

key role in Mr Yeltsin's re-election campaign last year and retains close ties to the Kremlin, said Mr Chernomyrdin would keep his job but added rumours had been carefully planted to remind him of his political dependency on Mr Yeltsin.

Several Russian newspapers agreed. The country's main business daily ran a story yesterday under the headline: "There is no doubt that Mr Chernomyrdin will remain prime minister."

Izvestia, the nation's biggest daily newspaper, made the boldest prediction with a banner headline story announcing that Mr Chernomyrdin would be sacked.

Citing a cabinet source, the newspaper said the tenacious premier's fate "was practically decided" - among possible replacements were Mr Anatoly Chubais, chief of staff and Mr Igor Stroyev, speaker of the upper house of parliament.

Other, well placed observers were

dubious about the *Izvestia* rumour. One Moscow banker, who played a

key role in Mr Yeltsin's re-election campaign last year and retains close ties to the Kremlin, said Mr Rodionov's job may be on the line.

But sceptics point to Mr Rodionov's popularity both among the military rank and file and with professional officers and say the president may hesitate to oust the minister for fear of provoking Russia's already much put-upon armed forces.

Anxious speculation about what changes next week's presidential address will bring to the cabinet have not distracted attention from the most important mystery: the speech is expected at least partially to resolve.

The address, which usually lasts about 40 minutes, will be delivered live, in the presence of Russia's parliamentarians and broadcast on national television. Mr Yeltsin has not spoken for that long in public since last June. The state of the nation address will be the toughest test the president has yet faced of his sides' contention that the Russian leader has recovered.

Coalition bid in Estonia
Mr Mart Siiman was named yesterday to form Estonia's next government. He has two weeks to put together a coalition and win approval from the fractious 101-seat parliament. His appointment came two days after the previous government fell following a scandal involving the sale of apartments.

Mr Siiman, who comes from the Coalition party, which has been in power since 1995, started talks with other parties when Mr Tiit Vahi, his predecessor, announced his intention to resign. Mr Vahi's minority government became untenable following disclosures that his daughter and other officials bought apartments in Tallinn, the capital, at below market prices.

The government will be the country's fourth in two years. The 1995 general election resulted in a divided parliament marked by weak voting loyalty. Despite the political turbulence, however, economic policy has held steady, bringing sustained growth and foreign investment.

Matthew Kaminski, Kiev

Latvia fills finance post
Mr Robert Zile, a western-trained economist and chairman of the Latvian parliament's budget committee, yesterday filled the long vacant post of finance minister. Controversy over the previous appointment - Mr Vassil Melnik, a businessman publicly attacked for alleged conflict of interest - brought down the government last month. Mr Andris Skele, the prime minister, resigned and then put together a new eight-party coalition.

Mr Zile, who from the right-of-centre Fatherland and Freedom party, has won respect for his work on getting the balanced 1997 budget through parliament. He has backed another deficit-free package for next year. Riga's financial community yesterday welcomed his confirmation, noting his reform credentials and management skills.

Matthew Kaminski

La Poste gets a break

The lower court of the European Court of Justice yesterday upheld France's right to give a tax break to the state post office. Rejecting an appeal by five French insurance groups, it said the tax advantage was acceptable under European Union rules since it helped the post office meet its public service obligations.

The insurance groups had challenged a 1990 law allowing La Poste to offer insurance services and granting it a reduced local tax rate. They argued that the concession allowed the post office to cross-subsidise its insurance activities.

The court supported the European Commission, which found that the tax concession was less than the economic burden of La Poste's public interest responsibilities, for instance its obligation to operate post offices in unprofitable rural areas.

■ Mr Emil Constantinescu, Romania's new president, has said Bucharest "was ready to accept" Ukraine's current borders - a gesture aimed at improving relations. The two countries have disputed ownership of a Black Sea island.

ECONOMIC WATCH

Dutch growth accelerates

Dutch GDP

Annual % change



The Dutch economy grew by 2.8 per cent in the final quarter of last year, according to provisional figures from the central statistics bureau. As the pace quickened through the year, this left gross domestic product for all of 1996 at 2.7 per cent, against 2.1 per cent the year before.

The bureau said investment was rising and foreign trade showing an upturn, but individual spending was also growing steadily. Consumer spending rose 3.1 per cent in volume terms last year, in five years and up from an average 2 per cent in 1994-95.

Outlays on durables rose 4.2 per cent, against only 0.7 per cent the year before. Food purchases were up 2.4 per cent. Consumer confidence indicators for this month and January showed continued strength, according to the statistics bureau.

■ Belgian consumer prices fell 0.12 per cent in February from January but were up 1.98 per cent year-on-year. ■ Swiss consumer prices rose by 0.2 per cent in February from January, taking 12-month inflation to 0.8 per cent. ■ Norwegian unemployment fell to 3.8 per cent in February from 4.1 per cent in January.

Banker pays price for wife's insider dealings

Gordon Cramb reports on how star executive of ABN Amro was brought down to earth



Mr De Bièvre (above) will collect his bonus and retire early

before ABN Amro, which Mr De Bièvre's main banker saw untapped value in its books, announced it would make a bid.

The bank withdrew that plan once the state slapped a large tax claim on Breevast, but in the meantime Mr De Bièvre had made a profit estimated at FF150,000 (\$265,000). So thinly were Breevast shares usually traded, though, that the transaction attracted the attention of stock exchange surveillance authorities, and an investigation began the following year.

Within the past few months Mr De Bièvre

admitted misuse of prior knowledge, in a deal with prosecutors which kept her out of court. She had to repay the earnings plus a fine of perhaps equal size - and, according to most accounts, her husband had to tell his bosses and face the consequences.

Mr De Bièvre chose to do that at 1pm on Tuesday, in a meeting with Mr Jan Kalf, ABN Amro's chairman. The bank contacted the prosecutors, and discussions continued into that night. At the same time Mr Kalf was preparing to present the group profits announcement yesterday, for which staff worked until 1.30 in the morning, and to fly to London for a brief visit to institutions before returning for the dinner.

Beyond expressing sadness, Mr Kalf was reluctant to discuss the issue. He preferred to stress the "rejoiceful" FF3.3bn profits, up by more than a quarter. This was achieved in spite of a sharp rise in staff costs, which included a 40 per cent boost to bonuses for thousands of those in Mr De Bièvre's investment banking division.

Their boss will collect his entitlement and, on turning 60 in August, draw an early pension.

ABN Amro is convinced that its compliance rules are adequate. Weaknesses in earlier controls led to the departure in 1992 of Mr Willem Scherpenhuijsen Rom as chairman of ING, a main rival, after only 12 weeks.

ABN Amro results. Page 16

Delors proposes idea of protocol for Maastricht

By David Buchan in Paris and Andrew Fisher in Frankfurt

Mr Jacques Delors, former European Commission president, yesterday floated the idea of attaching a protocol to the Maastricht treaty which would spell out how European governments would co-ordinate economic policy in support of monetary union.

Speaking at a Goldman Sachs conference in Frankfurt, Mr Delors, whose 1989 report provided the blueprint for the Maastricht treaty, said recent policy co-ordination was "not encouraging". He suggested a protocol taking in the stability pact agreed last December on financial disciplines in EMU, but "adding to it the procedures and means for a realistic co-ordination of macroeconomic policies".

Few supporters of monetary union have wanted to touch the EMU provisions of the Maastricht treaty for fear of unleashing a wholesale renegotiation that would tear it to pieces.

However France in particular has been pushing for an advance agreement on how governments could influence the planned European central bank without putting in question its independence on strict monetary policy.

Mr Delors avoided endorsing the French term of "economic government" - which he acknowledged caused anxiety in Germany - but the instrument of a protocol remains to be seen.

At the conference in Frankfurt, Mr Hans Tietmeyer, Bundesbank president, warned of "dangerous wage conflicts", increased unemployment and pressure on countries' social security systems if the single currency was not built on a solid fiscal and economic basis.

■ Belgian consumer prices fell 0.12 per cent in February from January but were up 1.98 per cent year-on-year.

■ Swiss consumer prices rose by 0.2 per cent in February from January, taking 12-month inflation to 0.8 per cent.

■ Norwegian unemployment fell to 3.8 per cent in February from 4.1 per cent in January.

Malta's PM risks rift with Church over divorce

Sant seeks consensus but issue is already raising hackles, writes Godfrey Grima

Labour prime minister, the fiery Mr Dom Mintoff, lost power after insisting that church-run schools provide free education.

The island's 370,000 people are overwhelmingly Catholic, and as many as 67 per cent go to church at least once a week. Malta is the last Catholic country in

NEWS: THE AMERICAS

Drugs scandal hits US-Mexico trust

Reports suggest power of cartels is greater than admitted

By Leslie Crawford
in Mexico City

When Gen Barry McCaffrey, US national drug policy director, invited Mexico's foreign minister to Washington last week, the main item on the agenda was a joint plan to eradicate drug trafficking along the 2,000-mile border.

The plan, which was to herald a new era of co-operation in the fight against drugs, never saw the light of day. Just before the minister, Mr José Angel Gutiérrez, landed in Washington, the Mexican government announced it was arresting its chief anti-narcotics official on charges of being in the pay of the country's most powerful drug cartel.

In the week since Gen Jesus Gutiérrez Rebollo's arrest, US and Mexican officials have tried to determine how much information was passed onto the Juárez cartel before the general was exposed as a double-agent. Days before he was detained, Gen Gutiérrez had travelled to Washington to be briefed by US officials.

The US Drug Enforcement Administration fears its undercover agents in Mexico may now be in danger. The detention of Gen Gutiérrez also points to a serious breakdown in US intelligence. Shortly after his appointment two months ago, Gen McCaffrey praised him as "a guy of absolute unquestioned integrity".

As the US administration prepares its annual verdict

on the performance of foreign governments in the fight against drugs, which it may announce today, Mexican diplomats say it may take years to rebuild the trust that has been shattered by the scandal.

Sharing drug-related intelligence has never been easy between Mexico and the US. US officials express frustration at the frequent changes in Mexico's security apparatus - Mexico has had six attorneys-general, and as many national drug policy directors, in five years.

Mexican officials admit that continuity has been a problem, but they have tried to limit the damage by seeking to portray Gen Gutiérrez as an isolated case of corruption.

A flood of reports in US and Mexican newspapers, however, appear to suggest that the power of drug cartels in Mexico is far greater than Mexican authorities would care to admit.

The most persistent allegation is one which links the family of the former president Carlos Salinas to the drug trade. More recently, the New York Times alleged that two state governors were protecting drug lords in their territories.

The Salinas family and the state governors have strongly denied the allegations against them, while the Mexican government has blamed the annual US certification process for the barrage of unfavourable reports.

The US administration is obliged by Congress every

year to make an assessment of the quality of other governments' efforts in the fight against drug trafficking and money laundering. Those that do not make the grade are decertified, bringing possible economic and trade sanctions.

Colombia was decertified last year for the first time. And, although the government in Bogotá has been highly critical of the procedure, it has introduced a large number of measures favoured by the US - plus a big lobbying effort - in a bid to regain its certification.

In the case of Mexico, the usual practice has been to certify the country as an ally in good standing, and in the immediate aftermath of Gen Gutiérrez's arrest there seemed little likelihood that would change.

In the past few days, however, there has been growing pressure from Congress to change the current stance. Senator Dianne Feinstein, Democratic senator for California, wrote to President Bill Clinton that the evidence was now "overwhelming" that Mexico should be decertified.

Her position has since been endorsed by a growing number of Democrats and Republicans in both houses, raising the possibility that Congress could even seek to overturn any attempt by the White House to give Mexico a clean bill of health this time around.

Privately, many administration officials share her view, but feel there is little

Additional reporting by Mark Suzman in Washington and Stephen Fidler in London



In Colombia - decertified last year - police raid a suspected Cali drug trafficker's hide-out

Fundraising claims hinder department

By Nancy Dunne
in Washington

"You need to get to the bottom of this. It's awful," says a note scrawled by President Bill Clinton across the top of a memorandum about Democratic party fundraising. The word "awful" is underlined twice and the document is stamped with four weighty words in capital letters: "THE PRESIDENT HAS SEEN."

A USA Today/CNN/Gallup poll found 45 per cent of those surveyed said they did not care whether Mr Clinton invited Democratic party contributors to spend the night in the White House.

Some 42 per cent said they believed he was wrong to do so, but 53 per cent said the issue was not relevant to the character or ability to serve as president. Nearly two thirds said his behaviour was typical of recent presidents; only 22 per cent believed it was unusual.

Since the furor over campaign finance abuses erupted just before the November election, opinion polls have consistently shown that while the public expresses sometimes strong disapproval of common funding practices, few believe anything can be done to change the system.

Public indifference undermines the effort to reform campaign finance laws in Congress. So far, the effort is being driven largely by the media, by democracy activists and by a minority of congressmen. Congress may conclude in the end that it has a greater vested interest in maintaining the system unchanged.

"It's become brutal... We're working 10 hours a day, and weekends. This is mind-numbing," says an official charged with meeting requests for tens of thousands of pages of documents relating to past trade missions. "What's it costing? You can't calculate the man-hours," says another.

Since the fundraising scandal broke at the end of the last year - and especially since Mr John Huang, a former Commerce Department official became a central figure - the department has been inundated with requests under the Freedom of Information Act.

Mr Huang was a political appointee in the department's international trade administration in 1994, where officials say he had no policy role. He is accused of maintaining "improperly close ties with his former employers in the Indonesian Lippo group. He then moved to the Democratic National Committee to raise money from the Asian-American community. Some contributions he raised had to be returned because they were suspected of coming from non-US citizens, which is illegal.

Under the Freedom of Information Act, journalists and citizens' action groups can pursue Mr Huang's trail, and broader allegations that trade policy was influenced by campaign contributions, through Commerce Department documents. The department has had to provide documents, memoranda, phone logs, electronic mail and briefing books.

The search for proof has left the international trade administration in turmoil. The [Freedom of Information requests] are coming in every day, with more and more questions... We have to go through the files looking for every mention of every company... it's like looking for needles in haystacks," says one official.

Editorial comment, Page 13

AMERICAN NEWS DIGEST

SEC lodges bribes charges

The US Securities and Exchange Commission has filed a civil action against Triton Energy Corporation and two former senior officers of its subsidiary, Triton Indonesia, for authorising "numerous improper payments" to a business agent acting as an intermediary between Triton Indonesia and Indonesian government agencies.

The case, filed in a US District Court, charges that in 1989 and 1990 Mr Philip Keever and Mr Richard McDowell authorised the payments to Mr Roland Siouffi "knowing or recklessly disregarding the high probability that Siouffi either had or would pass such payments along to Indonesian government employees... It also alleges that Triton recorded these payments with false entries.

Triton has agreed to pay a \$300,000 penalty and Mr Keever a \$50,000 penalty, without admitting or denying allegations.

Triton Indonesia became the operator of an oil and gas recovery project on the island of Sumatra as part of a joint venture in 1988 and had to pay Indonesia's national oil company for the use of the pipeline. The payments were allegedly part of an effort to obtain a favourable judgment on tax refunds on these payments, according to SEC documents.

Tracy Corrigan, New York

IRS counts costs of 2000

It will cost the US Internal Revenue Service at least \$129m to reprogramme its computers so they will recognise the year 2000, a senior IRS official says.

Mr Arthur Gross, assistant IRS commissioner in charge of technology, expressed optimism yesterday that the agency would reprogramme its core computer systems by 2000. "This is absolutely the highest priority for the IRS," Mr Gross said before he testifying to the National Commission on Restructuring the IRS.

The issue is especially sensitive for the IRS, which is under fire in Congress for spending \$4bn on a computer modernisation programme that still has not achieved key goals.

AP, Washington

Haiti wants money back

Haiti is trying to recover what officials allege are "hundreds of millions of dollars" taken out of the country by members of the family of former President Jean-Claude Duvalier and several of his cabinet ministers. Mr Duvalier, his family and some ministers fled the country in early 1986 after months of popular streets protests toppled the 29-year family dictatorship.

The government has filed a legal complaint charging the president's family and the ministers with misappropriation of funds, according to officials at the Justice Ministry. Those named in the suit include Mr Duvalier's mother and sisters, his former wife Michele and former ministers Mr Theodore Achille, Mr Jean-Marie Chanoine, Mr Jean-Robert Estime and Mr Franz Merceron.

Concise James, Kingston

Exuberance unbounded

At times Mr Alan Greenspan, the chairman of the US Federal Reserve, must feel like Cassandra, always warning of perils ahead, always condemned to be ignored.

In his twice-yearly testimony on US monetary policy to Congress on Wednesday he issued his most powerful caution yet to investors about the dangers of continuing to pile into already over-valued stock markets.

But like his now famous remarks about "irrational exuberance" in financial markets last December, Mr Greenspan's warnings again appear to have gone largely unheeded.

Though stock and bond prices fell following the chairman's testimony on Wednesday, the drop was not steep and by yesterday the markets had stabilised. Equity prices are in fact still 10 per cent above where they were at the time of the December speech and most analysts still expect them to go higher.

Are investors really so confident of continuing upward momentum that they feel they can ignore repeated warnings from the world's most powerful monetary policy official?

The answer lies at least in part in a gap between the Fed chairman's words and

what markets appear to believe the central bank is actually likely to do.

Almost no one expects the Fed to raise interest rates simply to knock the froth off a bubbling stock market. It is assumed that it will not act until it sees clear indications of emerging inflationary pressures in the real

Fed chairman's warnings have gone unheeded again, writes Gerard Baker

economy. And though Mr Greenspan mused at length on Wednesday, in Delphic fashion, about the inflationary dangers of soaring asset prices, there is little evidence so far that there has been any significant inflationary spillover from the stock market into a more general increase in the prices of goods and services.

In fact most of the available evidence suggests that inflation in the rest of the economy remains subdued. The Fed itself, in its forecasts released on Wednesday, said it expected consumer price inflation this year to be in the range of 2.75-3 per cent, slightly

below last year's outcome. And with growth forecast to be just 2.25 per cent, below the long-term US trend rate, there seems little cause for alarm about inflation further along the road.

Mr Greenspan was anxious to make the point that the Fed's policy is pre-emptive, that it will move to tighten policy before markets see the need for action. He also warned that there were emerging signs of growing cost pressures in labour markets. But he has been restating these points throughout the last year, a period during which the Fed has not changed its stance.

Perhaps the best clue to what the Fed plans, and how markets might react, came in the comparison Mr Greenspan made between the monetary climate now and in 1994-95. The Fed chairman

said the latter, when the Fed tightened monetary policy aggressively and asset prices fell sharply in response, was very different. The increases in interest rates then followed a prolonged period of monetary easing.

Real interest rates were too low for inflation to be contained.

"In February 1997, in contrast,

our concern is a matter of relative risks rather than of expected outcomes," Mr Greenspan said.

In other words, growth in

the economy means the continuing Fed bias is towards a modest increase in interest rates over the next year of perhaps 0.25-0.5 per cent, nothing nearly as draconian as the 1994-95 interest rate rises.

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Sharp boost for 1997 HK growth

By John Riddings
in Hong Kong

Mr Donald Tsang, Hong Kong's financial secretary, yesterday forecast robust economic growth this year and said he expected business confidence to remain high through the territory's transition to Chinese sovereignty in July.

Speaking ahead of his budget next month, Mr Tsang predicted real gross domestic product would rise by 5.5 per cent this year, compared with 4.7 per cent in 1996. "We expect the economy to perform significantly better than last year," said Mr Tsang. But he cautioned that stronger growth was adding to inflationary pressures, with consumer prices expected to rise by an average of 7 per cent this year, compared with 6 per cent in 1996.

The official projections were largely in line with private sector estimates, although several economists were more cautious about recovery in private consumption and more concerned about the risks of inflation. Business organisations, including the general chamber of commerce and the British chamber of commerce, have also reported robust sentiment among their members, despite politi-

cal disputes between Britain and China and controversy over Beijing's plans to amend civil liberties laws and replace the territory's legislature.

Mr Tsang said he was taking the unprecedented step of releasing growth forecasts ahead of the annual budget to demonstrate the government's commitment to the free flow of information and to underline its laissez-faire principles. "It is right to demonstrate as plainly as possible that market forces, not the annual budget, determine Hong Kong's economic performance," he said.

Pressures have been growing in Hong Kong for measures to support the territory's manufacturing sector, which now accounts for about 10 per cent of GDP, compared with 24 per cent at the end of the 1970s. Mr Tung Chee-hwa, the territory's future leader, has signalled that he might be sympathetic to steps to strengthen manufacturing, raising the prospect of strains within the post-handover administration.

According to Mr Tsang, growth this year will be fuelled by a 5.5 per cent rise in consumer spending and a rebound in foreign trade as a result of improved demand in some of the territory's

main export markets. Investment growth will shift from the public sector to the private sector as work is completed on the territory's new airport, one of the world's largest infrastructure projects.

The pattern of growth and the rise in inflationary pressures prompted reservations among some private sector economists. "The story of this recovery is capital inflows and liquidity," said Mr Dong Tao, senior regional economist at Schroders Securities. Although he argued that price rises had been curbed by the strength of the Hong Kong dollar, which is pegged to the US currency, he warned of underlying pressures.

"Strong liquidity along with a lack of controls over the money supply could cause asset price inflation. We have already seen a strong rally in the property and stock market."

While most economists said Mr Tsang's growth forecasts were in line with their own estimates, they added a note of caution about US monetary policy. "If the US raised rates, then we would see tighter conditions in Hong Kong and pressures on growth rates," said one economist at a European investment bank.

By Peter Montagnon and
Justin Marozzi

Mr Ben Diokno, economics professor at the University of the Philippines, warns there are signs that the country's economic miracle is not as far-reaching as it looks: "Some of my friends are getting out of textiles and into property," he says.

Deregulation has prompted a superficial boom in the construction and property sector, but the share of manufacturing in the economy remains lower than it was in the early 1980s.

Government officials like to portray Mr Diokno, who is known in Manila as the "prophet of doom," as a bit of a crank. The conventional wisdom is that the reforms, instituted by President Fidel Ramos since 1992 and which are due to culminate in May in a far-reaching overhaul of corporate and personal income tax, have transformed the economy.

But weak export growth in the second half of last year has sparked a more critical awareness of the need for follow-through in reform, especially as political uncertainty grows ahead of next year's presidential elections.

The character of the economic problem has changed, says one international economist. At the beginning of the reform period it was easy to see what Mr Ramos had to do: tackling the power shortage was obvious - but there was a lack of confidence in change actually happening. Now confidence has improved, but policy has become more difficult.

Even Mr Diokno says the

Philippine manufacturing sector registered a 2.6 per cent year-on-year slowdown, according to government figures, sending a warning sign to economic planners, reports Justin Marozzi from Manila.

The volume of production index registered a 3.8 per cent drop from November, while double-digit year-on-year decreases were reported in four sectors.

Wearing apparel led the decline with a 29 per cent fall, followed by a drop in textile, rubber products and non-ferrous metals.

The figures come amid concern that the Philippines' widening trade deficit and heavy dependence on remittances from overseas workers, combined with a flat manufacturing sector, might jeopardise continuation of the country's recent economic growth.

sustainable growth rate had risen to around 5 per cent from 3 per cent before the reform started. Mr Cielito Habito, secretary of planning, says the "cruising speed" is higher - between 6 and 8 per cent.

The Philippines suffered

less than other Asian countries in the regional export slowdown last year, partly because it was just beginning to reap the benefit of a surge of foreign investment in its electronics sector. But among lingering concerns are that the textile sector suffered badly, while imports continued to surge. The Philippines ended 1996 with a trade deficit of \$12bn.

The savings rate of slightly more than 18 per

more on infrastructure. "You don't have to produce a government surplus just by constricting expenditure," says Mr Habito.

He says Philippine exporters will become more competitive by increasing their productivity. For the garment industry this means moving up-market. In electronics there is already some evidence of higher domestic value-added. Fewer electronic components are being imported per unit of exports.

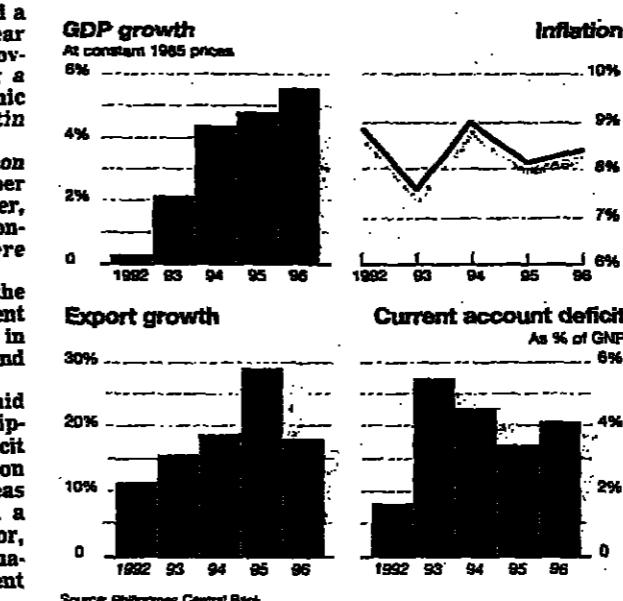
Yet most economists agree that the Philippines will run a current account balance of payments deficit for some years. At 4 per cent of gross national product, the deficit is about half that of Thailand. Thus far it has proved easy to finance, but the figures include a large \$7bn allowance for overseas worker remittances which leaves many economists concerned.

Success in economic policy depends on the dollar inflow lasting long enough to allow exports to take off, he says. If it does not, the country could still be left high and dry. Most economists expect the Philippines to avoid such a crunch, as evidenced by the decision by Standard & Poor's to upgrade of its credit rating to BB+ from BB at the weekend.

Yet a careful hand on the tiller is also needed, which is where the election comes in. Though the contest is wide open, businessmen are wary of a victory by Mr Joseph Estrada, the popular current vice-president who many fear would slide back into cronyism. His election "would crack confidence," says Mr Sutherland.

Source: Philippines Central Bank

Philippines: looking good



Asia warned of money laundering dangers

By Ted Bardecke
in Bangkok

Economic development in Asian nations, particularly those with newly emerging financial systems and cash economies, is being put at risk by the growing practice of money laundering in the region, law enforcement officials said yesterday.

The warning came as 26 Asian and Pacific nations established a region-wide group to jointly tackle their money laundering problems. Only eight of the countries in attendance have enacted anti-money laundering legislation and delegates said that as other regions introduced tougher anti-money laundering measures, Asia was at risk of

becoming more vulnerable. "The capacity for corruption, destabilisation and distortion of financial markets as a result of money laundering cannot be underestimated," said Mr John Brum, Chairman of the Asian Group of the Financial Action Task Force (FATF) on Money Laundering.

Several researchers have recently pointed to Thailand, where anti-money laundering legislation has been pending for several years, as an example of the corrosive effects money laundering can have on a country's financial system.

A recent report by economists at Bangkok's Chulalongkorn University said Thailand attracted as much as \$30.8bn annually, or 17

ASIA-PACIFIC NEWS DIGEST

Sharp rise in Japan's output

Japan's car and electronics companies have been working overtime to cope with an anticipated surge in domestic consumer demand ahead of a rise in sales tax from April 1. That was the main feature in a higher than expected 5.8 per cent rise in industrial output from December to January, after near stagnation - a rise of just 0.1 per cent - in the previous month, according to preliminary data from the Ministry of International Trade and Industry (MitI) yesterday.

An upturn on this scale is not expected to last. MitI projects, on the strength of a survey of manufacturers, a 3.5 per cent decline in output this month, followed by a 2.7 per cent decline in March. That would bring production back to about the same level as last December, said Mr Richard Jerram, chief economist at ING Barings Securities in Tokyo. The underlying level of production has been gathering pace since the middle of last year, even after adjusting for the current domestic sales push.

On a three-month moving average, output rose by 3.5 per cent last month. This is well ahead of the general growth of the rest of the economy, partly a sign of how manufacturers are doing better than the service industry - which is not included in industrial production.

Manufacturing production is being led by exporters, such as the car industry, whose overseas sales rose by 34.5 per cent year-on-year, in volume terms last month.

Exporters are benefiting from the yen's fall, which has made their products cheaper in foreign currency terms.

William Dawkins, Tokyo

Thai imports down 6.2%

Thailand's export performance continues to be sluggish but the slowing economy is causing a sharp fall in imports that is helping quickly to narrow the country's current account deficit, according to figures released by the central bank yesterday.

Exports in December fell 1.7 per cent year-on-year. They totalled Bt17.6bn (\$4.5bn), some Bt3.8bn lower than the previous month. Imports in December fell more sharply, declining 6.2 per cent year-on-year, and were Bt5.7bn lower than the previous month. December's current account deficit was Bt19.1bn, its lowest level in nearly two years.

The trade deficit also narrowed to Bt22.3bn, its lowest level in over a year. Manufacturing production picked up slightly, rising 4.8 per cent in December compared with 4.1 per cent in November. Money supply growth fell for the third consecutive month to 10.9 per cent, while bank deposit growth fell for the second straight month to 12.8 per cent.

Ted Bardecke, Bangkok

US ambassador for Vietnam

Mr Douglas Peterson is likely to be confirmed as the first US ambassador to a united Vietnam this week. He will arrive in Hanoi by April 1. Mr Peterson, 61, a Florida Democrat in the US House of Representatives between 1981 and 1996, played an advisory role in President Bill Clinton's decision in 1995 to normalise relations with Vietnam. He was a prisoner of Hanoi for six years after his jet was shot down in the Vietnam war. AFP, Hanoi

S Korea may face further strikes

By John Burton in Seoul

South Korea is facing the threat of new strikes today as parliament rushes to amend a controversial labour law that sparked three weeks of industrial unrest last month.

The dissident trade union confederation, which staged last month's general strike, said it would proceed with a new round of strikes unless parliament substantially revised the labour law which makes it easier for employers to sack workers.

The government had promised to amend the labour law by tomorrow. But, even if the law makes concessions to unions, there are fears of renewed labour conflict this spring as companies propose to freeze wages to avoid putting off workers.

The labour law, which was forced through a secret dawn parliamentary session in late December in the absence of opposition MPs, was criticised by the Organisation for Economic Co-operation and Development and international trade unions groups for curbing workers' rights of association and collective bargaining.

The labour law included a ban on multiple unions for several years, a prohibition on company salaries for full-time union leaders, the withholding of pay for striking workers and a ban on teachers forming unions.

Officials said the measures were essential to promote labour market flexibility and had high wage growth that has made Korea less competitive.

If the ban on wages for striking workers is kept, the government has indicated that it will withdraw provisions that would allow companies to sack workers en masse.

Why are the impossibly haughty sales assistants in Manhattan's temple of chic finally showing signs of warmth? Where can you have your portrait painted without losing face (and for under £400)? Why should you take your time when choosing a watch? And which lesser-known breeds of South African game park offer the true bush experience? Find out on Saturday, March 1, in the Financial Times' 56-page how to spend it colour magazine.

NEWS: INTERNATIONAL

Arafat to enjoy the high ground in Washington

By Judy Dempsey
in Jerusalem

Mr Yassir Arafat, president of the Palestinian Authority, will meet President Bill Clinton and Mrs Madeleine Albright, US secretary of state, on Monday in Washington, confident he has maintained his authority among Palestinians following the Israeli government's decision to build a new Jewish settlement in Arab east Jerusalem.

During a session with senior Palestinian leaders yesterday in the West Bank town of Nablus, Mr Arafat used all his skills to stave off any unrest. He also sought to rally Palestinians, arguing that Israel would withdraw from about 10 per cent of the rural areas of the West Bank in the first phase of the three redeployments instead of about 3 per cent originally conceived by the Israelis.

Both Palestinian and Israeli officials denied any claims of a trade-off between the Har Homa settlement and a larger redeployment from Area B - land under Palestinian civil administration but Israeli security. Diplomats said Mr Benjamin Netanyahu, the Israeli prime minister, was in no position to trade any land for acceptance by the Palestinians of a new settlement in east Jerusalem. "The far right/nationalist parties would not buy that," said one diplomat involved in the peace talks.

Senior US officials had insisted instead that Israel make a "substantial" redeployment, adding they would not be pleased with the original 3 per cent withdrawal.

Pressure from Washington had been exerted in the knowledge that Mr Netanyahu seemed determined to press ahead with Har Homa and that this could lead to a

backlash by Palestinians. But the pressure had stemmed from a belief that, unless considerable progress was made on redeployment and other outstanding issues the momentum in the peace process would be lost.

The first phase of the Israeli troop withdrawal, due to be completed next Friday, may also include that from areas completely under the control of the Israelis and where almost all the Jewish settlements are located.

During his visit to Washington - which will almost certainly include a visit to the United Nations in New York - diplomats said Mr Arafat has the moral high ground. "He can show that he commands discipline and authority just as much as he knows he cannot allow himself to be pushed too far by the Israelis," a diplomat said.

"But more important, he can show that it is Israel which is breaking the Oslo accords, particularly over Jerusalem whose status is meant to be left until the final status negotiations. In that sense he may be able to extract further concessions from Washington," he added.

The Har Homa decision, however, continued to attract international criticism. Yesterday, Japan, normally circumspect in such matters, added its voice. Mr Ryutaro Hashimoto, the Japanese prime minister, said Har Homa was a "negative element for the Middle East peace process and I personally regret it." Mr David Levy, the Israeli foreign minister, is in Japan.

Criticism from Tokyo coincides with plans by the Israeli government to raise Y20bn (\$164m) in Japan's domestic bond market, the first time it has tapped the Asian markets.



President Arafat inspecting a Palestinian guard of honour yesterday on his arrival in Nablus where he attacked Israel's decision to build houses for Jews in east Jerusalem.

Attitudes in US dismay UN chief

By Bruce Clark and Michael Holman

Mr Kofi Annan, the new United Nations secretary-general, said yesterday that he had been shocked by the strength of US isolationism.

In an interview with the Financial Times the secretary-general said he had been dismayed to discover that far-fetched conspiracy theories about the world body had gained currency at senior levels of the US Congress.

"The UN has no designs on the US, and even if we took it, I'm not sure if we could hold it," quipped the Ghanaian diplomat.

The UN has been attacked by extreme right-wing groups on a range of bizarre grounds, including theories that helicopters with UN markings have carried out military manoeuvres over US territory. Mr Annan said he was disappointed to find some credence had been given by mainstream politicians to the idea of a UN conspiracy to subvert the sovereignty of the US.

"For a while we all thought it was the extreme elements that talked of black helicopters and UN designs on US sovereignty... but I was shocked when I went to (Capitol) Hill."

Questions about "UN designs on US sovereignty and UN intentions to tax US citizens" had been put to him by senior members of the Senate, he said.

But Mr Annan said: "I hope that my answers might have clarified some of these misunderstandings."

The US administration last month asked Congress to repay most of Washington's debt to the 185-member institution - but only in 1999, and subject to implementation of streamlining measures long demanded by US politicians.

Despite the suspicions of Washington's lawmakers, such as Senator Jesse Helms - who says he will call for US withdrawal from the world body unless it reforms itself, Mr Annan expressed mild optimism about an internationally agreed programme for change.

He said that in the next four weeks he would draw up a series of internal reforms of the Secretariat, including the "consolidation of departments" and possibly the appointment of a deputy secretary-general.

But broader questions, such as the UN's fundamental purpose and the make-up of the Security Council, would have to be decided by the member states.

Zaire, Mr Annan said he was encouraged that African leaders were playing such a constructive role in the talks under way in South Africa.

President Nelson Mandela, in close co-operation with several other African leaders, has helped sponsor the first stage of negotiations involving Mr Laurent Kabila, leader of the rebel movement which controls much of the country's eastern region, and envoys from President Mobutu Sese Seko of Zaire.

"The remarkable thing is that they are all pulling together, including the secretary-general of the Organisation of African Unity."

Plugging the many holes in Africa's ballot boxes

Michela Wrong on a Commonwealth-led move to strengthen democratic institutions on the continent

Mr Jacques Chirac once remarked that Africa was not ready for democracy. It was a comment, made before he became president, which Africans found patronising. But Mr Chirac was doing no more than reflecting the anxiety western governments feel at what appears at best a faltering record of reform.

For although the years since the end of the cold war have seen a proliferation of multi-party elections in a continent once dominated by one-party regimes and blighted by military coups, many have merely strengthened the hold of a generation of post-independence rulers, or ushered in new autocrats.

This is disquieting enough to have prompted the Commonwealth, the 53-member association which brings together countries with historical links to Britain, to

stage a unique roundtable on African democracy and "good governance" in Botswana's capital Gaborone this week.

Branchchild of Chief Enoka Anyaoku, Commonwealth secretary general, the conference broke new ground by including both ruling party officials and opposition members from 18 African countries.

It is not a forum to advocate an African brand of democracy," he told delegates. "nor is it intended to foster the illusion that some how there is a less demanding path to democracy for Africa."

The agenda ranged from the controversial - coming to terms with "good old tribalism", as the chief put it - to the pragmatic - appropriate pensions for leaders who lose power at the ballot box.

For some of those attending, barely on speaking

terms back home, it was the first chance for such a dialogue.

"Six or eight years ago we couldn't have held this meeting," said one Commonwealth official. "There was no admission that a problem even existed. Now we all agree there is a democratic deficit."

When the Commonwealth officially embraced multi-party democracy in Harare in 1991 nine of its African members were under military rule or one-party states. Today only one falls into that category.

The press is free, political parties have been registered, human rights records have improved and military leaders have shed their uniforms to be tested at the ballot box.

But if most African leaders have stopped short of the brutal methods used in Nigeria - suspended from the Commonwealth since its

military regime hanged dissident Ken Saro Wiwa and eight others - many have proved adept at bending the rules.

In Tanzania, for example, Zanzibar's elections were so obviously rigged donors have severed aid to the island. In Kenya, a political party still awaits government recognition, 18 months after applying. And in Zimbabwe presidential powers to apportion parliamentary seats are one of several hurdles faced by the opposition.

Ruling parties are not the only contributors to the democratic deficit. Opposition parties - ethnically-based, dominated by personality politics and squabbling among themselves - have often proved incapable of grasping the concept of a "loyal opposition". When they have lost, they have disenfranchised their supporters by boycotting parlia-

ment or refusing to recognise the results.

Nor has the response of donors always been helpful, for while they have linked aid to good government, commercial and strategic interests often outweigh concerns about democracy.

The meeting in Gaborone discussed how to combat the effects of a winner-takes-all system which condemns losers to dangerous obscurity. A defeated candidate staring financial ruin in the face is unlikely to go quietly.

Delegates recommended that defeated or retiring leaders should be offered pensions and opposition parties given state funding to ensure they retain a stake in the democratic system.

In an attempt to combat tribalism, delegates also emphasised the need to strengthen local government, devolving the centralised power systems estab-

lished by the colonialists. This would lessen the danger of entire ethnic groups being marginalised.

But attempts by Ugandan officials to persuade the conference that President Yoweri Museveni's no-party "movement" system was an effective way of uniting a society splintered by past tribal, religious and regional differences received short shrift.

Delegates said Uganda's vigorous defence of its system was too reminiscent of the justifications voiced in the past by one-party regimes. "Everyone is moving in one direction and the Ugandans want to move in another. This is an argument of convenience," said Mr J.A. Kufuor, Ghana's main opposition leader.

There was a strong push from opposition leaders to replace the system whereby Commonwealth observers monitor elections with a constant "democratic auditing" process, so that dirty tricks are denounced long before a hopelessly weighted ballot takes place.

Those hoping for immediate action would find the recommendations drawn up by the roundtable disappointingly general. But delegates said the main thing was to have them accepted by the African heads of state who have been debating them in a retreat in northern Botswana and who will report back to a summit in Edinburgh in October.

"This is a beginning," said Mr John Fru Ndi, the opposition leader many believe was the real winner of Cameroon's last elections. "You don't go in full throttle. First you agree on the ground rules, later you establish the specifics. We have to sugar-coat the pill so the patient will swallow it."

BIS sees acceptance of more bond market risk

By Richard Lapper,
Capital Markets Editor

Investors were more willing last year to take "greater market and credit risks" in order to increase returns, according to a report published today by the Bank for International Settlements.

The report shows a sharp increase both in the overall volume of bonds and in structured deals offering higher returns. Net issuance (new issues less redemptions) of international bonds and other securities grew by \$51.2bn compared with a rise of \$31.3bn in 1995, increasing the total outstanding stock of such debt to \$3,200bn.

With world interest rates at relatively low levels, investors were more prepared to invest in more "exotic" currencies and structures. Last year saw the first international bonds denominated in currencies such as the Icelandic króna and Croatian kuna. The report points to the growth in popularity of asset-backed

structures, which repackage financial assets and cash flows, ranging from bank loans to aircraft leases.

For the year as a whole 34 per cent of all bond issues were asset-backed securities, compared with 12 per cent in 1995. Asset-backed structures accounted for 37 per cent of all bond issues in the fourth quarter.

"The pervasive use of derivative features on a widening array of debt issues

provided another illustration of investors' relentless search for higher returns," said the report. Derivatives such as call options, which give the issuer the right to redeem a bond before it matures, were features of many issues.

Such "structured securities", which offer higher yields to investors than conventional bonds but lost popularity after the 1994 fall in bond prices, have "returned to favour". At the same time, the BIS pointed to continued stagnation in the exchange-traded derivatives market, with the turnover of financial futures and options contracts falling from 1.21bn in 1995 to 1.16bn in 1996.

The volume of deals also fell throughout last year, dropping from 326m contracts in the first quarter to 271.2m contracts in the last three months of the year.

"International Banking and Financial Market Developments February 1997. Bank for International Settlements, Basle

Risk premium now paid is lower than new ratings would justify

Credit ratings irk Lebanon

By Roula Khalaf
and Samer Iskandar

A year-long tug of war between Lebanese officials and Moody's, the US credit rating agency, culminated this week with the publication of ratings for Lebanon by four different agencies.

The process started in February 1996, when officials from Moody's reportedly advised government officials that they intended to issue an unsolicited rating.

Although Lebanese officials had been expecting such a move ever since they issued the country's first eurobond in October 1994, they nonetheless tried to stonewall the process.

The reason they dragged their feet is that the risk premium they currently have to pay to investors is lower than the ratings would justify.

This is explained by the fact that a substantial proportion of eurobonds issued by Lebanon is held by expa-

triate Lebanese investors, whose assessment of the country's risk is lower than that of the international financial community.

The officials also recognised that Moody's often produces harsher assessments than its peers, thus their desire to solicit three other ratings.

Resulting grades were: BBB from Nippon Investors Service, a Japanese rating agency; BB from IBCA, the European agency; BB and B1 respectively from Standard & Poor's and Moody's, the largest US agencies.

These assessments apply to two outstanding eurobond issues, totalling \$900m. They will also act as a ceiling all bonds issued in foreign currencies by Lebanese entities.

One credit analyst at a large US bank in London said: "S&P's rating represents a good median." It puts Lebanon on an equal footing with Russia, but he described Moody's grade as

harsh. "There is no reason to rate Lebanon two notches lower than Russia, which presents a similar profile of political instability," he said.

Lebanon's ratings are constrained by its uncertain future. A country in the midst of an ambitious reconstruction drive after 17 years of civil war, Lebanon can easily be viewed as having unlimited potential in the context of peace in the Middle East, but also unlimited risk in the context of continued regional instability.

That national reconciliation among Lebanon's various communities remains fragile makes the country's vulnerability to outside shocks even worse. Its relationship with Syria, which controls Lebanon's politics, in turn makes it dependent on events in Damascus.

Political vulnerability is compounded by the fragile state of public finances. Although the country's external debt of \$2.7bn

(£1.65bn) is small - it accounts for 20 per cent of GDP - it is the accumulation of a huge internal debt of more than \$8.5bn that really worries rating agencies.

Moody's estimates that, compared with annual fiscal revenues, the total public sector debt burden averaged 44.8 per cent over the 1991-1995 period.

The government and the private sector have, however, been able to convince international investors of the merits of investing in Lebanon by focusing on the bright scenario: that peace, although delayed, is inevitable; that the country has a strong and entrepreneurial private sector and a history of liberal economic management; and that it can and will regain its role as a financial and tourist centre.

Lebanon has an excellent debt repayment history, a net external creditor position and huge assets held by the Lebanese diaspora.

CONTRACTS & TENDERS

ROMANIA

MINISTRY OF COMMUNICATIONS

PRIVATISATION OF ROMTELECOM
APPOINTMENT OF ADVISOR TO THE MINISTRY OF COMMUNICATIONS
INVITATION FOR EXPRESSIONS OF INTEREST

This invitation for Expressions of Interest follows the decision to implement the Strategy for restructuring and development of the telecommunication sector in Romania and attracting a strategic investor for Romtelecom.

The Ministry of Communications now intends to appoint an advisor for the privatisation of Romtelecom through the participation of a strategic investor to be selected by open tendering. The selection of the strategic investor is scheduled to occur in the first half of 1998. It is intended that Romtelecom will meanwhile be transformed from its present status as a Regie Autonome to a joint stock company. The assignment for the advisor will be funded from Romtelecom resources.

The main tasks of the advisor will be to provide advice and recommendations to ensure the privatisation process for Romtelecom is optimised consistent with the Ministry's strategy for the restructuring of the sector. In particular to:

- prepare a detailed programme for the privatisation process leading to the participation of a strategic investor in Romtelecom
- review the policy, legal, regulatory, licence, tariff regime and privatisation framework
- conduct business, corporate legal and financial due diligence
- develop a valuation of the company and sale strategy
- prepare a Memorandum of Information and all related documentation (Charter amendment, Share Sale & Purchase Agreement, Shareholders Agreement, etc) for inviting tenders
- provide all necessary support for tender invitation and evaluation
- draw up all legal documentation required in preparation for participation of the strategic investor and for its engagement
- assist in all actions for closure

The assignment is expected to commence in April-May 1997 and continue through to the engagement of the strategic investor.

Tendering for this assignment is open to firms from any country. Interested firms are hereby invited to submit expressions of interest. A short list of qualified firms will be formally invited to submit proposals following this invitation.

In order to determine the capability and experience of firms seeking to be shortlisted, the information to be submitted with expressions of interest shall include:

- company profile, organisation and staffing
- details of experience of similar assignments for the engagement of a strategic investor undertaken in the last five years, including the sector and country involved, drawing particular attention to experience in the telecommunications sector
- CVs of staff who could be available to work on the assignment

Six copies of the above information in English should be submitted to the address below in a sealed envelope marked "Expression of Interest for Romtelecom Privatisation Advisory Services", to be received no later than 10th March, 1997, 12:00 hours (local time).

ION MATEI
Counsellor to the Minister
Ministry of Communications
14-16 Libertatii Ave.
70060, Bucharest 5
ROMANIA
Fax: +40-1-411 1479

JYX 61550

Attitudes in US dismay UN chief

By Bruce Clark and Michael Holmes

Mr Bob Azman, the United Nations' secretary general, has resigned by the strength of US influence, an interview with a Financial Times said to have disclosed complete details about the way US and allied countries have forced the US to accept a new UN budget.

The US has no desire to be seen as a part of a European diplomatic alliance.

Mr Azman has been unable to implement the UN's programme of action, which has been carried out by the US and its allies.

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A message to global financial institutions

The future is out of the box.

We have a vision of the future — a vision that blows away the limits of proprietary delivery systems, closed boxes and limited information. Where there aren't "products." Just capabilities packaged around your needs.

Telerate has a new name to match this vision. We've become Dow Jones Markets.

The new name reflects the commitment and worldwide resources of Dow Jones — combined with our intent to create global markets of ideas, information and interaction.

We start with a clean sheet of paper and no limits.

We're listening

We hear you when you say you want the freedom to work from a plane, your desk or a trading floor — to see live market-maker prices, hit them and transact — from a single screen. And to package exactly what you want on that screen. To track and run analytics on any combination of instruments or indexes. Or be alerted to anything you consider news.

We hear you and we're working on it.

The new leadership team at Dow Jones Markets is directing a multi-year effort to build far beyond our current strengths in news, real-time data and commentary.

We intend to add new strengths in historical information, analytics, interactive transactions and risk-management services.

Not just for fixed income and foreign exchange. But also equities, commodities and energy. Including emerging markets and derivatives. Delivered on a secure, high-performance global Internet-protocol network with intuitive navigation through standard browsers.

Full service from a single source. In an open environment. Your way.

More than data

We're changing our focus from "What can we sell you?" to "What do you need?"

This positions us to be your strategic partner, not your market competitor. Together, we'll define a unified environment that molds itself to your operations — puts you at the centre of your trading community — and lowers the transaction costs of dealing with your customers.

So you can integrate every process, link to every business party, see all the information you need.

Commitment — and reality

Dow Jones is committed to the success of this vision. We're already establishing strategic alliances, retraining or hiring key people, and deploying advance teams to work with customers.

In the meantime, you can continue to rely on our market-moving news, benchmark prices, value-added services, digital platforms, advanced technical analysis and much more.

This is just the beginning. I'll continue to report progress on our plans regularly as my colleagues and I work with you and other customers to reshape the landscape of the financial-information industry.

We're realistic about the job ahead. It won't happen in a week or a month. But we share a mind-set, a resolute confidence and a sleeves-rolled-up attitude that you can count on.

More to come.

Ken Burenga

DOW JONES
Leading Business
Moving Markets

Kenneth L. Burenga
President of Dow Jones
and CEO of Dow Jones Markets
burenga@cor.dowjones.com



e of
risk

Lebanon

Opposition cites United Nations report suggesting France is leading recipient

Inward investment boasts 'hollow'

By David Wighton
and Guy de Jonquieres

The Labour party yesterday claimed the government's boasts about inward investment had been exposed as "hollow" following the publication of a United Nations report suggesting that France had overtaken the UK as the leading recipient in Europe.

Figures show that in the first half of the 1990s new investment into the UK was lower than in the previous five years, while the amount going to France more than doubled.

Mr Robin Cook, Labour's shadow foreign secretary, said the figures undermined the government's claim that maintaining the UK's opt-out from the European Union social chapter was essential if it was to remain attractive to investors. "The Tories have been leading the UK down the road to low wages and poor working conditions," he said.

Labour leaders appeal for trust

By Our Industrial and Political Staffs

Mr Tony Blair, the leader of the opposition Labour party, was yesterday given a cautious welcome by business chiefs at the most important event so far in his campaign for their support.

About 50 chairmen and chief executives of the UK's biggest companies gathered to hear Mr Blair and Mr Gordon Brown, the party's shadow chancellor of the exchequer, urge them to trust Labour. Many guests afterwards described the event as "impressive", though some said they still had doubts about Labour's plans to introduce the European Union's social chapter and Mr Blair's ability to control the left wing of his party.

Mr Chris Haskins, chairman of Northern Foods and a declared Labour supporter, said: "You know

Hoya Lens UK, a Japanese-owned maker of spectacle lenses, is to make a £10m (\$15.1m) expansion of its plant at Wrexham, north Wales. The project will more than double the existing workforce of 100. The investment follows a visit to Japan last autumn by Mr William Hague, chief minister for Wales in the British government. Hoya has been trading in Wales since 1980.

• Samsung, the Korean industrial

"What these figures show is that the road is a cul-de-sac."

But government ministers accused Mr Cook of misleading use of the figures. Mr Ian Lang, chief industry minister, said: "It is arrant nonsense for Robin Cook to suggest that inward investment in Britain is doing anything other than power ahead."

Mr Lang countered with figures showing that in the past six months

group, is to invest more than £4m (\$6.5m) in an extension to the new microwave oven factory at its electronics complex near Billingham in north-east England. Samsung expects its Wavyn Park plant to employ 3,000 workers by 2000, making it the biggest Korean investment in Europe. It now employs 800 people and comprises two factories, making microwaves and computer monitors.

Britain's share of Japanese investment into the EU accelerated from 40 per cent to 56 per cent.

Mr Lang's officials at the industry department warned that inward investment flows were very volatile. They said that in 1995, foreign direct investment into the UK was \$29.9bn, almost treble the previous year, compared with \$20.1bn for France.

But Labour said the significance of the UN report was the trend in the

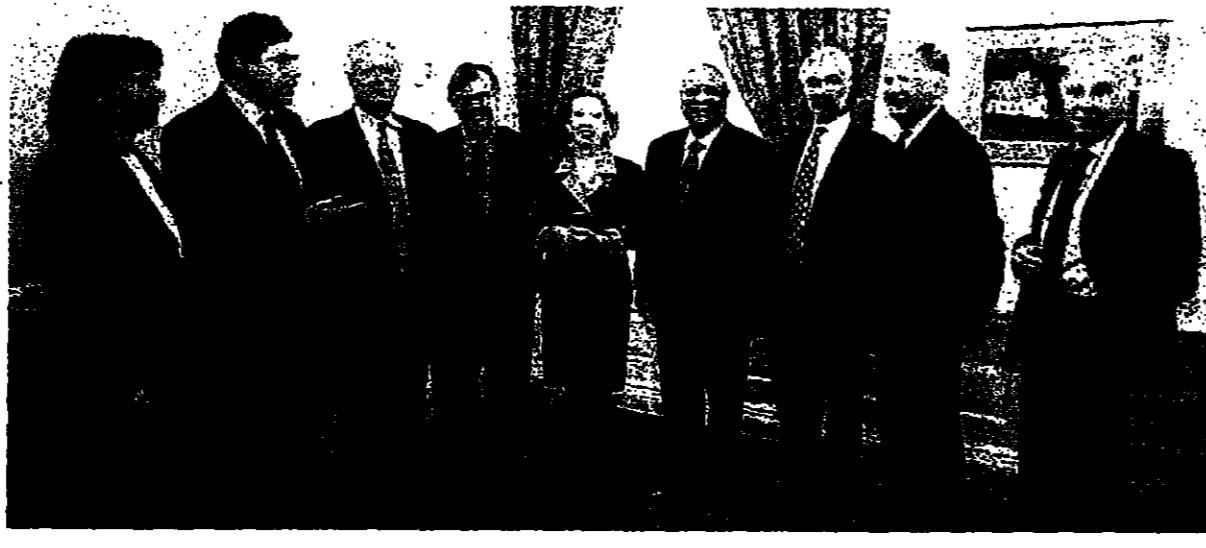
figures. In the five years to 1990, investment into the UK averaged \$21.6bn, but this fell to \$17.1bn in the first half of the 1990s, while the figures for France were \$8.1bn a year in the late 1980s rising to \$19bn in the 1990s.

But the industry department insisted that the UK remained "the biggest recipient of inward investment in the world after America".

Officials said that comparative international figures had to be treated with caution. For example, investments made by non-British companies in the UK do not count as inward investment if the capital is raised on the London market.

The UK and France also have different rules for including equity investments in companies.

But Labour has argued that such factors are swamped by the large number of takeovers of UK companies which count towards inward investment totals.



Labour's guests, from left: Jan Hall of ARJO Wiggins Appleton; Gordon Brown; Jeremy Hardie, chairman of retailer H.W. Smith; Chris Haskins; Margaret Beckett, shadow industry minister; Lord Paul of Caparo; Alastair Darling, Labour's chief City spokesman; Sir Peter Heap, board advisor HSBC Holdings; and Cob Stanham, chairman of ARJO Wiggins

business people. What they say and what they do are often two different things."

The carefully-orchestrated event was staged in a chandeliered reception room at the City of London headquarters of HSBC's Midland Bank offshoot. The host, Sir William Purves, HSBC chairman, told the audience that his decision to hold the event should not be seen as implying support for

Mr Blair repeated the message he has often delivered to business audiences - that Labour has changed and the ideological divide over economics between the two main parties is gone.

The first question came from Lord Sterling, chairman of P&O, the construction and shipping group, who challenged Mr Blair to defend his plans for the social chapter. Mr Blair said the social chapter contained

only modest provisions. Britain had to play a more positive role in Europe.

Mr Blair was also asked how he would deal with pressures from the left if he won the election. He answered that new Labour was very different from old Labour. Mr Dominic Cadbury, chairman of Cadbury's, the confectioner, remained unconvinced. He said afterwards: "There are

Labour pressures which are going to make his task very difficult."

However, Sir Bob Reid, chairman of London Electricity, said: "They're likeable people. They're good, modern, end-of-the-century Brits." The chief executive of a top financial institution said he shared concerns about the social chapter and Labour leftwingers but he was impressed with Mr Blair and Mr Brown.

Aid for colleges reflects quality of their research

By Nicholas Timmins
and Simon Targett

Universities with the highest quality research yesterday received grant increases above inflation at a time when higher education as a whole faces a freeze in real terms.

Oxford, Cambridge, University College London and Cranfield are among the winners in the distribution of £704m (£1.14bn) in research funds for the coming academic year, gaining increases of between 4 per cent and 10 per cent. Losers include Manchester, Exeter and the London Business School, which face cash cuts

in all £3.4bn is being provided for teaching and research in higher education, but the distribution is heavily influenced by last year's assessment of the quality of research in each institution and the decision to reward excellence.

But because of the impact on the losers, the funding will be phased. Some £12m of the research money is being held back from the biggest gainers to soften the blow to

the losers. The full amounts should be paid next year.

Professor Brian Fender, the council's chief executive, said: "Oxford is having £1m withdrawn from its full allocation and University College London £1.7m."

The overall 2.8 per cent increase is broadly in line with inflation. Student numbers are expected to remain at 747,000, but funds have been earmarked for an extra 7,000 engineering and science students, 5,000 of them part-time.

The Committee of Vice-Chancellors and Principals welcomed the decision to concentrate the cash on excellence. "Selectivity is essential when money is short," Professor Gareth Roberts, the committee's chairman, said. But the need to cap the universities with the best research showed that funding remained "grossly inadequate".

The Association of University and College Lecturers said funding remained at least 2.5 per cent below its level two years ago.

Editorial Comment, Page 13

Landing marks airline take-off

A former clerk at a regional airport is launching his third venture in holiday travel

enues by £70m (£113m) to £200m in the year to October 31.

Mr Cossey, after starting out as an operations clerk at Southend airport in south-east England, went on to found both Air Europe and Air 2000. His task at Flying Colours is now to build a group with the profitability and critical mass to support a public offering or attract a trade buyer.

The company originated as a management buy-out of Club 18-30 after the collapse of Mr Harry Goodwin's

International Leisure Group. It later acquired Sunset Holidays, a package operator with a strong presence in the north of England.

Mr Cossey's recruitment coincided with a financial restructuring to provide funds needed to establish the flying operation. NatWest Ventures and Causeway Development Capital, backers of the original buy-out, were joined by Philidrew Ventures and Prudential to establish a group with £40m of equity capital. Managers hold 20 per cent of the shares.

The aircraft which carries Mr Cossey is the first of four 235-seat Boeing 757s ordered. The aircraft - list price \$61m-\$63m each - will be financed by leasing companies. The airline will fly package tourists from Man-

Ross Tieman

The Finished Article

stem that's so accurate it can position you almost anywhere on earth to within metres. It will sort out the best route for your journey. So all you have to do is drive.



Freude am Fahren

UK NEWS DIGEST

Nokia plans \$32m R&D site

Nokia, the Finnish world leader in digital mobile phones, is to spend around £20m (£32.4m) to create a development facility in Farnborough, 50km south-west of London. The new centre will employ about 600 staff and be the third biggest telecommunications research centre in the UK after Noriel's laboratories and British Telecommunications' site in eastern England.

It will be Nokia's biggest research centre after its main laboratories in Oulu, Finland, and one of six centres the Finnish company has established worldwide. Site development is expected to begin in June.

The facility will house research and development on mobile phone design and basic telecommunications. Mr Geoff Andrews, Nokia UK vice president for human resources, said in *The Engineer* magazine yesterday that growth over the past five years had made new facilities imperative.

Alan Cane

DEFENCE EXPORTS

GEC systems for Brunei boats

Brunei is to equip three corvettes it is to buy from GEC Marine with British equipment, the UK Ministry of Defence announced yesterday. The order was announced by Mr Michael Portillo, the defence secretary, on a visit to Brunei. An order for the three vessels was placed last year, but no decision was made on the electronics services for the ship. After further negotiations British Aerospace' Vertical Launch Sea Wolf has been selected as the main anti-aircraft weapon, with GEC's Nautis command and control system being fitted. The corvette's radar will also be supplied by GEC; the diesel engines will also be British. Brunei also reaffirmed its intention to buy BAE's Hawk jet fighters.

Bernard Gray

INTERACTIVE TV

Phones chief expects fast access

Mr Rupert Gavin, British Telecommunications' director of multimedia services, forecast yesterday that the former state company would offer television, interactive services and fast Internet access down high capacity telephone lines by the end of the decade. He was responsible last year for one of the biggest commercial experiments in the world on interactive television. More than 5,000 viewers in eastern England received everything from video-on-demand to home shopping down their telephone lines. Mr Gavin told a Financial Times conference in London that the trial had shown a "sustainable" demand for interactive services delivered to television sets down telephone lines.

Raymond Snoddy

FILMS

Granada joins franchise bid race

Granada, the leisure group, has joined a consortium including Mr Mike Newell, director of *Four Weddings and a Funeral*, which will today submit a bid for one of four film franchises to be subsidised by funds raised through the National Lottery. At least a dozen consortia are expected to apply for £39m (£63.1m) each in lottery funds over the next six years.

The Granada Film subsidiary is bidding as part of UK Filmworks, which includes Mr David Parfitt, producer of *The Madness of King George*; Summit, a Canadian film distribution company; and Mr Newell's Dogstar Films.

Another bidding consortium is Pathé Pictures, which includes Mr Simon Channing-Williams, producer of *Secrets & Lies*, and Ms Norma Heyman, who produced *Dangerous Liaisons*. It has secured backing from BZW and Coutts, the banking groups, as well as Pathé and Canal-Plus, the French media companies. Mr Richard Branson's Virgin group has joined the producers of *Michael Collins* in The Film Consortium, with financial backing from Berliner Bank and Cofidis, the French bank.

• Todd-AO Corporation, a US film and television facilities company, is to expand and modernise its London post production house. Todd-AO diversified into the UK two years ago by buying the television facilities subsidiary of Chrysalis, the media group.

Alice Rawsthorn

SOCCER

Premiership appoints new chief

Mr Peter Leaver, a deputy judge at the High Court, has been appointed chief executive of the Premier League in English soccer. He will give up his law firm practice and take up his new post in April on a rolling contract. Mr Leaver is a former director of *Tottenham Hotspur*, whose chairman, Mr Alan Sugar, was a member of the six-man board which made the appointment. The league denied there was a conflict of interest, saying Mr Leaver stepped down from his role at Tottenham before Mr Sugar became involved with the club. Sir John Quinton, non-executive chairman of the Premier League, said the most important issues facing it were the future of the Europe's transfer market and the forthcoming inquiry by the UK Restrictive Practices Court into whether the league acted as a cartel in negotiating its television deal with BSkyB, the satellite broadcaster.

Patrick Harverson

DUNBLANE MASSACRE

Handgun restrictions become law

The government's crackdown on handguns, following the massacre of 16 schoolchildren in Dunblane, Scotland, became law yesterday. It outlaws all such weapons of more than .22 calibre with the remainder having to be kept in secure gun clubs. The new law provides for compensation to owners forced to hand in their guns. Opposition parties supported Dunblane campaigners in demanding a total ban on handguns, but ministers saw the biggest revolts of recent years as Conservatives added their voice to criticisms of the measures.

Editorial Comment, Page 13

John C. Smith

MANAGEMENT

Fresher faces

Peter Norman and Peter Marsh on Germany's generational change



Leaders: Klaus Lederer (left) and Hubertus von Grünberg

wind of change is blowing through Germany's boardrooms, bringing in a younger generation of internationally oriented managers who show less respect than their forebears for Germany's consensual system of corporate governance.

Last month, the traditional world of German heavy industry was shaken up by the resignation of Heinz Schmidknecht, 57, and his replacement by Klaus Lederer, 48, as chief executive of Deutsche Babcock, the loss-making Oberhausen-based plant and engineering group.

Lederer, who took over at Babcock this month, was recruited from ITT, where he had held executive roles in the US conglomerate's automotive parts division.

He lost no time in announcing that rationalisation measures would claim more than 4,000 jobs as part of a programme of restructuring, disposals and management pruning that would result in Babcock cutting its 29,300-strong labour force by about a third in two years.

Given Babcock's 1996 net loss of DM434m, Lederer had little option but to signal radical surgery. But his appointment showed how German companies are now inclined to look outside for new top management and are seeking those with international, and especially, US-linked experience.

"There is a generational change under way," says Volker Wiegmann, who heads the executive search division of Roland Berger, the management consultancy, in Germany. "The new leaders are in their early 40s. It is not so long since they completed their studies and they are prepared to push through decisions."

At the Munich office of Heidrick & Struggles, the executive search company, partner Christoph Netta says: "The type of person being sought by companies has changed in the past five to six years. Seven or eight years ago, companies sought people to replace executives who were moving on or out because of age. Now, one third of contracts are to find someone to replace an existing manager and improve quality."

Those German companies abandoning the traditional

preference for promoting home-grown managers are increasingly prepared to skip a generation when recruiting an outsider. Within a big organisation, it is those who have experience abroad that stand the best chance of an executive board post.

"The unifying factor is international experience," says Wiegmann. "Big German groups have made it almost obligatory for young high-flyers to work abroad for some time, and this generation is now coming the top."

January's merger of Mercedes-Benz and Daimler-Benz set in train an injection of younger, internationally oriented managers into the Daimler executive board headed by Jürgen Schrempp, whose first big challenge was dealing with Daimler's loss-making US subsidiary Euclid in 1982, was only 50 when he took over as chairman of the group in May 1995.

Dieter Zetsche, 43, to be responsible for sales, showed

his paces in Brazil, Argentina and the US, where he was president of Daimler's Freightliner truckmaking subsidiary, before returning to Stuttgart in 1992. Eckhard Cordes, who at 46 has been placed in charge of Daimler's rail and micro-electronic interests, spent the late 1980s as financial controller of Mercedes in Brazil.

Kurt Lauk, 50, will be in charge of the commercial vehicle division after a job-hopping career that has taken him from Stanford University in the US by way of Boston Consulting, the US-owned group, and senior board posts with Zinser, a textile machinery manufacturer.

Audi, the up-market carmaker in the Volkswagen group, and Veba, the Düsseldorf-based conglomerate.

Elsewhere, 45-year-old Joachim Vogt was this month appointed chief executive of Hugo Boss, the clothing company. The retail and fashion sectors have a

tradition of younger executives and Vogt was under 40 when he joined the Boss board in 1990.

There is some evidence that generational change and an infusion of US management ideas have contributed to lay-offs, downsizing and Germany's unemployment of 4.66m.

"There is a growing number of companies who define their future in terms of a reduction in the workforce," notes Professor Wolfgang Streeck, of the Max Planck Institute in Cologne for the study of societies. These tend to be headed by people with experience of US company or a business school training, he says.

Pointing the way to a new tougher approach has been Hubertus von Grünberg, the 54-year-old chairman of Continental, the Hanover-based tyre producer. Since taking over in 1991, he has cut 3,000 jobs from the company's German plants and transferred work to lower cost sites abroad.

Von Grünberg, who spent 20 years with ITT, has complained that he would have stepped up the transfer of jobs from high-cost locations were it not for "political considerations which have limited our speed".

With its powerful trade unions and culture of consensus, Germany is not an easy place to push through radical corporate policies. Even Daimler's combative, US-oriented Schrempp climbed down last year on the issue of curtailing workers' sick pay.

But it is possible for managers to achieve large job cuts working within the system. This has been demonstrated by Ron Sommer, the 49-year-old former Sony executive, who has headed Deutsche Telekom, the telecommunications group, since May 1995.

Sommer, who with Schrempp was one of the first prominent examples of Germany's new generation of internationalist managers, used "socially acceptable" means to cut Telekom staff numbers by 29,000 to 201,000 in the period to the end of 1996.

It remains to be seen which route Lederer will take in cutting jobs at Babcock. He has ducked out of public view for 100 days to plan the restructuring.



John Kay

Test of possession

How do you tell whether you own an umbrella, let alone a company?

It own my umbrella. And companies are owned by their shareholders. But what do we mean when we say that? What does, or could, the word own mean when applied, not to the relationship between me and my umbrella, but to that between hundreds of thousands of shareholders and the collection of people, assets, brands and customers that constitutes British Telecommunications?

The classic description of the nature of ownership was provided 40 years ago by the distinguished legal theorist, A.M. Honore. Concepts of ownership vary across countries and over time. But, Honore argued, "there is indeed a substantial similarity in the position of one who 'owns' an umbrella in England, France, Russia and China."

In all these countries, the owner of an umbrella may use it, stop others using it, lend it, sell it, or leave it by will. Nowhere may he use it to poke his neighbour in the ribs or knock over his vase".

Honore explained that ownership is neither a simple nor a simple concept. Ownership, like friendship, or obligation, has many characteristics. If a relationship has sufficiently many of these, it is one we can describe as ownership: just as if an animal has enough elephant-like features, we say that what we see is an elephant.

Honore went on to list 11 badges of ownership. Ownership typically confers the right to possess, the right to use, and the right to manage. Ownership entitles you to any income that is earned, and to claim the capital value of the asset. Ownership imposes an obligation to refrain from harmful use.

What you own can be seized to satisfy your unpaid debts. Owners may claim security against

expropriation. And owners can pass on any or all of their rights to someone else. There is no time limit on the rights of ownership. And owners have an ultimate right of residual control. All rights which you have not explicitly conceded to someone else belong to you.

That is what we mean when we say "I own my umbrella". I can put it up, leave it in my will, throw it away. I can appeal to the police or the European Commission on Human Rights if a thief or the government takes my umbrella away. And I must accept responsibility for its misuse and admit the right of my creditors to take a lien on it.

When we run through these tests, we see immediately that shareholders own their shares in BT. All the criteria of ownership are met. But it is not at all obvious that they own BT itself.

Their shareholding gives them no right of possession, no right of use. If they go to a telephone exchange, they will be turned away at the door. They have no more

BT and my umbrella: who owns what

CHARACTERISTIC	ME AND MY UMBRELLA	ME AND MY COMPANY
Right to possess	✓	✓
Right to use	✓	✗
Right to manage	✓	✗
Right to exclude	✓	✓
Right to transfer	✓	✓
Right to security of tenure	✓	✓
Right to claim security	✓	✗
Right to sell	✓	✓
Right to bequeath	✓	✓

relationship between BT and its shareholders satisfies only two, and these are rather minor. Three tests are satisfied in part and six are not met at all. We could make a stronger case for asserting that BT is "owned" by its directors.

So who does own BT? The answer is that no one does.

There are many different kinds of claims, contracts and obligations in modern economies, and only occasionally are these well described by the term ownership.

The differences between BT and my umbrella are so wide ranging that it is hardly likely that my relationship to them could be described in the same way. We have been made victims of an inappropriate analogy.

As Charles Handy puts it, when we look at the modern corporation, "the myth of ownership gets in the way".

John Kay is a director of London Economics and director of the School of Management Studies at Oxford University. This column appears fortnightly.

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ARTS

Mirror held up to the people

Richard McClure reviews an exhibition of the work of the German photographer August Sander

Of all the German artists persecuted by the National Socialists during the 1930s, there is perhaps no more unlikely figure than August Sander. A provincial portrait photographer, Sander was already nearing his 60s when the Chamber of Visual Arts raided his publisher's office in Cologne and confiscated all available copies of *Face of the Age*. The book was the first instalment of *People of the 20th Century*, Sander's mammoth photographic survey of German society which was never to be completed. Along with the destruction of the printing plates, Sander was placed under surveillance and banned from continuing his work.

Sander's harassment by the Reich has led him to be viewed alongside "degenerates" such as Otto Dix and others denounced by Hitler for producing "decadent, monstrous and deceitful art". But anyone expecting to see a lurid, Dix-like cast of prostitutes and transvestites among Sander's surviving images will find instead a sober portfolio of prosperous merchants, solemn missionaries, and pot-bellied pastry cooks. There is no obvious subversion or political dissent, only a seemingly contented community going about its work.

Travelling throughout Germany in search of subjects, Sander's crime was to expose the myth of the master race. In wishing to speak the truth in all honesty about our age and the people of our age, he held up a mirror to the German workforce and revealed the Aryan ideal to be a sham. The faces staring out at us

are not those of a healthy, homogenous *völk* but a nation like any other, complete with its share of the swarthy, the feckless, and the hatched-faced. The stark, spare simplicity of each portrait compounded the offence. Sander was among the first to reject darkroom retouching and his self-styled "exact photography" exaggerated the very diversity the Nazis sought to eliminate. The subjects are pictured in near-identical poses, a blunt uniformity by which Sander hoped to elude the traditional goals of portraiture. He had no desire to reveal what his contemporary Edward Weston called "the very substance, the deeper inner-image, the very bones of life". Rather than a psychological study of a single individual, he aimed to capture the "physiognomic image of a whole generation".

To create this dispassionate record of his compatriots, Sander sorted thousands of images into complex social groups, arranging his subjects "from the highest point of culture downward to the idiot". From the zenith of the artistic and intellectual elite, his index descended through the professions and trades - the clergy, the master craftsmen - until reaching those he called "the last people" - a catch-all category for the sick, the insane and the dying.

Although Sander was still attempting to organise his prints into this specific structure when he died, relatively unknown, in 1964, the exhibition has remained faithful to his original framework. Curated by his grand-

son, Gerd Sander, it is a brave decision, particularly since its outdated doctrine so easily offends modern-day sensibilities. The photographer was no Nazi - he sheltered Jews and his eldest son died in a Gestapo jail - yet there are uncomfortable echoes of fascist ideology in his pseudo-scientific hierarchy in which each portrait is allotted a grade, each life assigned a value. With vagrants and gypsies sifted from scholars and aristocrats, Sander's scale of human significance seems little different from the ruthless classification of the final solution. Two midgets, whose urbane appearance suggests professional status, are consigned to the ranks of the last people; their physical stature condemning them to a place alongside a cretin and a corpse.

Even though Sander prided himself on "correct seeing, observation and thinking", his inventory is riddled with such prejudice. In particular, his portraits of country workers are given a formal dignity above all others. Himself the son of a farming family, Sander shared the Reich's blood and soil devotion to the fatherland and he placed the "earthbound man" at the moral foundation of his social order. Dressed in their Sunday best or picnicking in cornfields, he presents these peasant families as model citizens, wholesome representatives of rural values.

The farmers' ruddy features lend partial credence to his central tenet that "we can tell from appearance the work someone does or does not do". Unlike the British photographer George Rodger, who deliberately contrasted portraits of sweet-

faced SS women with their Sunday best or picnicking in cornfields, he presents these peasant families as model citizens, wholesome representatives of rural values.

factured SS women with their Sunday best or picnicking in cornfields, he presents these peasant families as model citizens, wholesome representatives of rural values.

Yet for all the spurious notions of Sander's thinking, the portraits themselves are deeply affecting and go far beyond what Thomas Mann called "a treasure trove for lovers of physiognomy". Although Sander's sole purpose was a precise rendering of facial types, he was not indifferent to his subjects' humanity. Only rarely do they seem like insect specimens pinned to a card. Like

pictured further on.

Bellocq's pictures of Storyville prostitutes, each is permitted to return the viewer's gaze and assert their identity through gesture or bearing. These are respectful, courteous images which refuse to reduce people simply to their public roles. Wherever one looks, individual lives shine out. A widower embraces his dead sons. Sander's own wife cradles her stillborn child. And everywhere the



The myth of the master race exposed: 'Blind miner and blind soldier', 1930, by August Sander

fragility of existence is accentuated by our knowledge of impending war. Sander once spoke of *People of the 20th Century* as "a mosaic that becomes a synthesis only when it is presented en masse". But, here, the beauty is not merely in the mosaic. It is in each unique fragment.

At the National Portrait Gallery, London WC2 from today until June 8.

Recital Demonic pianist

Even in the long line of great pianists Yevgeny Kissin is an enigmatic figure. The young Russian, with his mad-scientist hair and jerky little bobbing bows to the audience, is clearly an individual, but of what kind we never find out - least of all in his monosyllabic interviews.

There was just one moment in his recital at the Royal Festival Hall on Wednesday, when the real Kissin looked out from behind his protective wall. He had ended the first half with a fiery conclusion to Chopin's Fourth Ballade and, as he turned to face the audience, his eyes were aflame with a staring blaze of emotion. Either he had fought with a demon and won. Or the music had taken him for a ride in the devil's own chariot.

The Chopin Ballades do not usually reach this pitch of intensity. Kissin played all four and there was a demonic streak in each of them. So long as he was playing quietly or even up to a moderate *force*, he would keep a masterly range of subtleties at his fingertips - every nuance of colour and phrasing was there. But beyond a certain threshold the music suddenly jerked up a gear and notes started to clatter past noisily and at great speed, as the demon technician within him took over.

In one of the Ballades - the schizophrenic Second, with its two diametrically opposing moods - this division is already written in. For the rest I was not so sure. It was frustrating in Kissin's tense performance of the First or his wondrously sensitive approach to the Fourth, to realise in each case that so much exceptional musicianship was going to end in a wild hammering of semiquavers to the end.

For the second half he turned to Schumann: *Kreisleriana* and the showpiece *Toccata* in C, the latter an awesome feat of articulation and bravura, which made an explosive end to the printed programme. Together, these two pieces combine in an almost ideal pairing, as Kissin is able to hold off his virtuosic side in *Kreisleriana*, knowing the *Toccata* is to follow, and concentrate his energy on etching each of Schumann's rhythmic and melodic motifs with razor-sharp individual brilliance. He also found a deep-toned legato that made the music really sing.

When everything comes together, Kissin is a remarkable pianist, his blank or defensive exterior locking in an electric musical brain turned up to the highest voltage. He managed to play three encores - a Chopin, a Schumann ("Anschwung" from the *Phantasiestücke*, apparently once used as an encore by Richter) and a Liszt - before the standing ovations set in.

Richard Fairman

Young Brits at the RA

The bandwagon marketing young British artists as currently, the most creative in the world reaches the Royal Academy this autumn with *Sensation*, an exhibition of the work of 30 artists from the Saatchi collection. Over 100 pieces by Damien Hirst, Rachel Whiteread, Sarah Lucas, Gavin Turk, etc, including Hirst's "Shark" and Whiteread's "Ghost".

This interesting trio of home grown shows has mainly been arrived at by circumstance: the RA's overdrift, now just over £2m, forced it to withdraw from a planned, and expensive, monumental international display of the art of the 20th century.

Alongside this boost for Charles Saatchi's art collection will run a very different show, *Victorian Fairy Paintings*, the first major investigation of 19th-century artists' fascination with the subconscious and the magical. Works by the mad Richard Dadd, Landseer, Rackham, and Turner will be included. It is the RA's first "Christmas" exhibition, and runs from November 13 to February 18.

The third major exhibition of the 1997-98 season is *The Treasures of England*, comprising over 300 works of art from the nation's museums, both university and municipal. It will include celebrated paintings by Frith, Stubbs, Canaletto, Francis Bacon, Hogarth and many more, and one room will be given over

Admissions for current exhibitions, especially for *Braque: The Late Works*, which is attracting 2,500 visitors a day, are above target, while the recently finished *Living Bridges* was the most successful architectural exhibition ever held at the RA, and will now tour the Far East and possibly Russia.

Antony Thorncroft

Theatre/Alastair Macaulay

A victim of artifice

Imogen in *Shakespeare's Cymbeline* is a difficult but honoured role, particularly with the Royal Shakespeare Company. Forty years ago, Peggy Ashcroft made her first appearance with the new company in the role. Subsequent RSC Imogens have included Vanessa Redgrave, Susan Fleetwood, Judi Dench and Harriet Walter. Almost 10 years on, I can still hear Walter's heart-capturing delivery of such lines as "I would have broke my eye-strings, crack'd them". Imogen - several times a victim of circumstances; several times innocently discovered in situations where mythological tragedy is on the cusp of black comedy; ardent, radiant, lovable - is all heart.

Joanne Pearce, latest RSC Imogen of the part, does not for a moment inhabit it from within. She gives an unspontaneous - condescending, even - masterclass on it, full of bogus "musicality" and "feeling". Her style, now and then, becomes an almost interesting kind of Brechtian detachment: which enables her effectively - almost campy - to show the suddenly comic side of several lines when Imogen is in emotional extremis.

But the role becomes a ripe series of effects, none of which ring true. "I would have broke my eye-strings" becomes an excuse for a run, a gesture, and a snar-

rant. Even the final reunion with Posthumus looks like a Chorister's moment. Pearce seems particularly keen to win awards with her vocalism: diverse in its use of vibrato, its alternations of chest and head tones, its contrasts of dynamics and volume, and with a range spanning far more than an octave. Just get this legato marcato! pianissimo! But too often she charts, and too often her chant becomes a drone. Her vocal tone, itself so artificial and cultivated, sometimes reminds me of Margaret Thatcher's. The distance between thought and utterance is, with Pearce, so great that, paradoxically, this hard-working and committed actress herself seems - behind all the lavish display of technique and emotional - both insincere and stupid.

I am sorry to write so harshly,

but Pearce's style is the most sophisticated epitome to date of what so many people have come to dislike in the RSC. Mercifully,

it is not the RSC's only style. Still, it is plainly related to the directorial style of Adrian Noble. It is lovely to see *Cymbeline* onstage, and Noble's staging has real merits. And yet, there are passages where Noble seems to be detached from the play, and to make the cast condense to it as if it was a foolish Victorian melodrama.

Amid all this artifice, *Cymbeline* itself nonetheless often bursts into natural, wonderful life. Jo Stone-Fewings and Richard Cart, as Cymbeline's lost sons, are ebullient, ardent, tender, funny. Guy Henry, adorably and hilariously, reveals a defeatist, effete, vulnerable core within the Queen's stupid and brutish son Cloten. Ian Hogg gives Belarius the right sturdy openness. Damian Lewis, playing Posthumus, has his faults: his voice could be weightier, his small, round mouth tends to hang open, and certain RSC contrivances enter into some of his verse-speaking. But he has spontaneity (most of the time) and intensity, force and pathos. Stephen Warbeck, like all RSC composers, has provided too much music, most of which is so amplified that it sounds taped; but much of it is good, especially atmospheric woodwind notes slowly shift over a brisk percussion. Anthony Ward's designs - with vast sail-like sheets hanging and keeping most of the action at the front of the stage (good for the Royal Shakespeare Theatre's problematic acoustics) - bring a bright, mythological aura to the play that suits it well.

Sponsored by Allied Domecq. In RSC repertory at the Royal Shakespeare Theatre, Stratford-upon-Avon.

valuable from both a cultural and historical standpoint; documenting marriage, court favourites and notable events; to April 13. The J. Paul Getty Museum Tel: 41-310-459-7611.

■ **FIGURE DRAWINGS:** an exhibition of 26 works from the museum's collection, dating from the 16th through to the 19th century. The drawings range from nude figure studies to images of people at work and leisure; to April 6.

■ **MUNICH**

EXHIBITION

Neue Pinakothek Tel: 49-89-23805-195

■ **DER ARCHITEKT DER NEUEN PINAKOTHEK:** Alexander von Branca: exhibition devoted to the work of architect Alexander von Branca, who designed the new building for the Neue Pinakothek after the museum was destroyed in the second world war. The display not only focuses on von Branca's architectural projects, but also features a selection of his watercolours; to Mar 26.

■ **PARIS**

CONCERT

L'Opéra de Paris Bastille Tel: 33-1-44-73-13-99

■ **ORCHESTRE DE L'OPERA NATIONAL DE PARIS:** with conductor James Conlon perform works by Liszt, Schubert, Ravel and Mussorgsky; 8pm; Mar 3.

■ **DANCE**

Palais des Congrès Tel: 33-1-40-68-22-22

■ **SWAN LAKE:** choreographed by Ivanov, Petipa, Gorsky and Messerer; to Mar 1.

■ **NEW YORK**

EXHIBITION

The Metropolitan Museum of

Art Tel: 1-212-879-5500

■ **DOMENICO TIEPOLO:** Drawings, Prints and Paintings in The Metropolitan Museum of Art: the son and collaborator of Giambattista Tiepolo, Domenico Tiepolo was a gifted artist in his own right and one of the most appealing draftsmen of the 18th century. This exhibition features the work of Domenico Tiepolo in the museum's collection, which includes one of the largest concentrations of his drawings in the world; to Apr 27.

■ **JAZZ & BLUES**

Blige Note Tel: 1-212-475-8592

■ **JOHN ABERCROMBIE & RALPH TOWNER:** performance by the jazz guitarists; 8pm; from Mar 4 to Mar 9.

■ **PARIS**

CONCERT

L'Opéra de Paris Bastille Tel: 33-1-44-73-13-99

■ **ORCHESTRE DE L'OPERA NATIONAL DE PARIS:** with conductor James Conlon perform works by Liszt, Schubert, Ravel and Mussorgsky; 8pm; Mar 3.

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■ **SWAN LAKE:** choreographed by Ivanov, Petipa, Gorsky and Messerer; to Mar 1.

■ **NEW YORK**

EXHIBITION

The Metropolitan Museum of

Musée d'Orsay Tel: 33-1-40-49-48-14

■ **AUGUSTE PRÉAULT (1809-1879): SCULPTEUR ROMANTIQUE:** exhibition devoted to the work of the French sculptor Auguste Préalut, whose bronze and stone sculptures show influences of Realism and Romanticism. Included are portrait sculptures, sculptures inspired by literature and other objects; to May 18.

■ **THESSALONIKI**

EXHIBITION

Thessaloniki Cultural Capital '97 Tel: 30-31-867-860-6

■ **THREE SWEDISH PHOTOGRAPHERS:** exhibition of work by Anders Petersen, Christer Strömholm and Tuula Lindström, all of whom have left their mark on contemporary Swedish photography. The exhibition is being held at the Helepo; to Mar 26.

■ **ZURICH**

OPERA

Opernhaus Zürich Tel: 41-1-268-6666

■ **FAUST:** by Gounod. Conducted by Rafael Frühbeck de Burgos, performed by the Oper Zürich. Soloists include Cecilia Gasdia, Reinaldo Macias, Ruggiero Raimondi and Oliver Widmer; 8pm; Mar 2.

■ **LISTING**

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COMMENT & ANALYSIS

Philip Stephens



Unacceptable risk

The insurance industry may be keen to replace parts of the welfare state – but only for the fit and the affluent

The state is in retreat. Its boundaries must be drawn ever more tightly. In this age of the individual, we are to fend for ourselves from cradle to grave. The spending axe will cut deepest into the bloated welfare budgets which are the legacy of the postwar settlement.

Such, in varying shades, is the received wisdom of the times. Some, like Bill Clinton in the US or Tony Blair in Britain, may promise to slow the process. And collective social welfare will not be surrendered easily in Germany and France. But the ideological tide we are told, runs against government. Global competition and a smaller state fit hand in glove. Private must replace public provision.

Even on the left, this neat view of the post-millennium world carries echoes of inevitability. Projecting the present into an indefinite future is a universal weakness. Roosevelt and Beveridge are now fallen heroes.

Mr Clinton, a New Democrat, was the first to start unpicking the New Deal. Mr Blair, on the threshold of power as the leader of New Labour, proclaims that only the centre-left has the capacity to reform (spend less on) Britain's once-treasured welfare state.

At some point, though, seductive theory meets reality: ideology confronts empiricism. It is then that we see the snag. It is a serious one. The era of big government may be over. And anyone can squeeze provision at the margin if they are not much fussed about the dismal condition of the underclass. But those who would dismember the welfare state rather than merely curb its more voracious appetites have to offer alternatives.

Easy, they say. The market will do the job. It is much more efficient. That is what savings plans and insurance policies are for. Personal pensions, life and

health insurance, mortgage protection policies, unemployment and long-term care insurance – you name it and the industry will write you a policy.

And it will. But only if you are fit, able or affluent. The poor, the sick and the unemployed need not apply. Nor need the growing number in insecure jobs: nor those deemed more susceptible to illness by virtue of their genes. For at the very moment when private insurance is being promoted as the successor to collective provision, it is becoming ever more unsuited to the task.

Consider one or two straws in the wind from Britain in just these past weeks. The Association of British Insurers said the number of people taking out private health insurance has fallen by 1m from a high point of nearly 7m in 1990. Some doomsters say the numbers could fall by another 3m in coming years.

These precise figures are disputed. But the trend is clear enough. A few years ago, private health insurance was the future. No longer. For all its institutionalised squalor, the taxpayer-financed National Health Service is apparently preferable to the escalation in the premiums charged by private insurers; the more so

A shift to private provision would be seriously regressive. Those most in need would be those least able to afford insurance

The evidence for such a shift to private provision is clear. Flexible employment markets nourish competitiveness. They also mean less security for those in work. Insurance to bridge the gaps between short-term employment contracts is either prohibitively expensive or, more often, unavailable. It is a question of moral hazard. If cover was more freely offered, policyholders would be encouraged to take extended holidays.

The evidence for such

shortcomings is not simply anecdotal. A report published this week by the Joseph Kintrea Foundation "looks at the cost of private provision in three areas of welfare from which the state has already begun to withdraw: mortgage payment protection, long-term incapacity and long-term care insurance.

The study finds that in these three, very limited areas a married man of 45 would pay £500 per year for insurance. For someone on average earnings that is the equivalent of a rise of 6 percentage points in the basic rate of income tax. Even then, many would find themselves with limited cover and some would be excluded completely.

The wider conclusions from all this are obvious. Public welfare is redistributive. The less advantaged are subsidised by the more affluent and able-bodied as risk is spread across the widest spectrum. A shift to private provision would be seriously regressive. Those most in need would be those least able to afford insurance. Many would be stranded in a new underclass of the uninsured.

None of this is to dispute that the present, monolithic structure of welfare provision is a child of the economics and the demographics of the 1950s rather than the 1990s. Like everything else it must adapt to change. In Britain, there is obvious scope for an expansion of mutual self-help within companies, trade unions and communities. The private sector has a role. But before we abolish the welfare state, we should think a little more carefully about what might replace it.

*Private Welfare Insurance and Social Security, by Tania Burchardt and John Hills. £13.45, published by York Publishing Services in association with the Roundtree Trust

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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European security must include the Russians

From Mr Frank Blackaby.

Sir, Your editorial "Nato's leap in the dark" (February 25) seems to have accepted in a somewhat uncritical way a number of arguments put forward by those who favour Nato expansion.

For example, it is suggested that without US military presence there might be "renationalisation" of European states' defence policies. The opposite is more likely to be true. All the moves to "renationalisation" – the mixed-force brigades and the European

rapid reaction force – have been European initiatives. The Americans have been distinctly cool to these ideas.

Nato, you suggest, has put limits on the intensity of quarrels between member states. In fact, Nato has done nothing about the persistent hostility between Greece and Turkey. It has, if anything, exacerbated it with the "Cascade" programme which accompanied the Conventional Forces in Europe treaty. Under Cascade both

states acquired large quantities of modern weapons at knock-down prices.

Then you suggest that "at least in theory" Nato has set standards for civilian control of the military. The Treaty of Washington says nothing about civilian control of the military. In the periods during which, in Greece and Turkey, there was military control of the civil sector, Nato was unconcerned.

The big argument here is simple. After the end of a war, if you want peace you should bring the former enemy into your security structure. That was done

with Germany after the second world war, and as a consequence war between western European states is no longer credible. After the end of the cold war the overriding need was to bring Russia into the European security structure. Instead, we have what George Kennan has called "the most fateful error of American policy in the entire post-cold war era".

Frank Blackaby,
9 Fentiman Road,
London SW3 1LD UK

Not yet on the right track

From Mr Kenneth Armitage.

Sir, You may be correct to suggest, as you do in your leader ("Age of the new trains" 26 February 1997) that new train operating companies have smartened up their services with new paint and new uniforms. But many, if not all, of those companies are still using the same old rolling stock with tired engines, tired carriages and worn-out seats. Having a new livery for men and machines does not make up for still uncomfortable commuter services.

Kenneth Armitage,
6 Debden Valley Drive,
Kesgrave,
Suffolk,
IP5 7FB
UK

Private cash no panacea for Underground

From Mr Anthony H Rowley.

Sir, Mr John Major's smirking comments in parliament about the British Labour party and North Korea being alone in "reviling" privatisation may be in keeping with the intellectual capacity of the Tory leadership, but they are not worthy of what should be an informed public debate on privatising London Underground.

The Underground system is outdated, inefficient, dirty and dangerous and pathetically inadequate compared with modern, efficient, clean and safe systems elsewhere (in Tokyo, for example). It clearly requires big improvements including re-boring of tunnels, renewal of rolling stock, and improvement of station infrastructure.

This requires massive

injections of capital. Yet the record of the private sector in capitalising transport ventures is hardly encouraging.

The Hong Kong Mass Transit Railway system was predicated on the notion that private development alongside stations would largely finance construction of the system. In the event, the Hong Kong government had to make repeated injections of public money into the MTR to make good shortfalls of revenue over debt servicing costs. The Channel Tunnel is another egregious example of how private-sector financing of transport infrastructure projects can go sadly astray.

There are obvious social dimensions to transport economics and it is Mr Major's blithe assumption that the

market will provide a complete solution that is reliable, rather than the honest doubts of the opposition on this score. London Underground lacks morale in an age of simplistic faith in the ability of the private sector to cure all economic ills. Yet

there is no reason why a properly managed and adequately capitalised public entity should not transform the current shambles under London into a network which could again be source of national pride. Cosmetic improvements by opportunistic private investors are hardly an adequate substitute.

Anthony H Rowley,
Nishi Azabu 2-18-2,
Minato-ku,
Tokyo 106, Japan

An acceptable quality level should mean right all the time

From Mr Philip B. Crosby.

Sir, I find it hard to believe such a sophisticated organisation would fall for a programme like "six sigma" ("A black belt in quality", February 24). This is an extension of the "acceptable quality levels" approach that produced years of things that did not work as planned. It requires measurement and analysis to determine "what

is good enough". It costs much more than just learning how to do things right first time.

Think about it. If we accept that we can drive through 3.4 stop signs per million, then what happens to the integrity of the driving system? Semiconductor chips contain millions of components, and every chip will be defective under this

standard. Jet engines contain several million characteristics, which brings about an obvious question of reliability.

I fail to understand why people keep digging up these old ideas when they have been proven to increase the price of non-conformance and make trouble for the customers. Business is transactions and relationships. Quality management is

about getting all the transactions correct every time, while helping employees, suppliers and customers to be successful. It is not about how many babies it is permissible to drop before some one complains.

Philip B. Crosby
P.O. Box 1927
(164 Palmer Ave.)
Winter Park, FL 32790, US

Europa · Michael Stürmer

Given undivided attention

Germans need to define themselves afresh and think about what sort of Europe they want

The fall of the Berlin Wall sparked off a chain reaction including enlargement of the European Union, the eastward expansion of Nato and the strengthening of the Western European Union.

Perhaps the greatest impact has been felt in Germany, where it has not only altered the way Germans see themselves but also changed the country's position in Europe almost beyond recognition.

There is a consensus in Germany – across the political spectrum – that the country must continue to be integrated in Europe and in the Atlantic alliance. The importance of that integration was emphasised by Mr Helmut Kohl, the chancellor, when he said that European integration for the 21st century was a question of war or peace.

But the changes since 1989 have left a legacy which means that Germans need to define themselves afresh and think about what sort of Europe they want. There is a danger that without such a process the European project will lose popular support.

Overcoming the country's division has been more difficult than expected. Party politics in the east and the west are so different that there is a serious risk of misunderstanding.

So far, the east German economy has not seen the dramatic take-off needed, and DM1.00bn (US\$98bn) has gone largely in the upkeep of a population that cannot earn its passage. Disenchantment in the west is mixed with resolve that an alternative to success cannot be permitted. In the east, in spite of many dashed hopes, unification is still seen by a large majority as a cause of joy.

The prospect of European economic and monetary union adds a further challenge, however. Most Ger-

mans tend to focus on the loss of certainty that will follow the abolition of the D-Mark on the gain in security from an ever closer union.

Sixty per cent of Germans are against Ecu – and the rest do not support it. Many find the economic arguments wanting or, at best, uncertain. The government's attempts to educate them have been modest, and have not touched the deeper layers of unease.

This concern about the common currency is adding to unhappiness with the Brussels bureaucracy and irritation with red tape and intrusive legislation.

In Austria, Mr Jörg Haider, leader of the right-wing Freedom party, has just scored a resounding success at the polls with an anti-Brussels programme which cashes in on such sentiments.

In Germany such an anti-EU ticket is not feasible.

To be pro-Europe and pro-integration is not only politically correct, it also corresponds with the nation's nightmares of the past and visions for the future. A Haider would be forgiven in Austria; the Germans would not forgive themselves.

Yet the intergovernmental conference discussing future reform of the EU is likely to unsettle German public opinion further. It will, for example, be looking for means to streamline the way the EU operates so it can accommodate 10 or more new members from eastern and central Europe. This will not forgive themselves.

Are the Germans more European than others, committed to the Europe of ever-closer union as described in the Treaty of Rome and still routinely referred to in the Maastricht treaty? Or are they a nation like all others, with a little more popular support

and history, and a little less

self-assurance, nuclear clout and worldly wisdom?

If the former is the case, the Germans, by being more Europe-minded than anybody else, are likely to push their neighbours into more integration. But if Germany is a nation like other nations, the Germans need to decide how they see their future and what this means for the future of the EU.

A combination of history, geography and the national interest makes Germany the most European of all the European countries, with the possible exception of Luxembourg. The irony remains that the Germans can become Europeans like their neighbours only by being reasonable and reassured, more than in the past, about their own national identity.

The enlightened wisdom is that the nation state is dying, because it cannot provide for external security, a flourishing economy and enough capital at reasonable rates. Yet the nation state is alive and well in matters of taxation, the welfare state, internal security and environmental concerns – and above all the creation of accountable government.

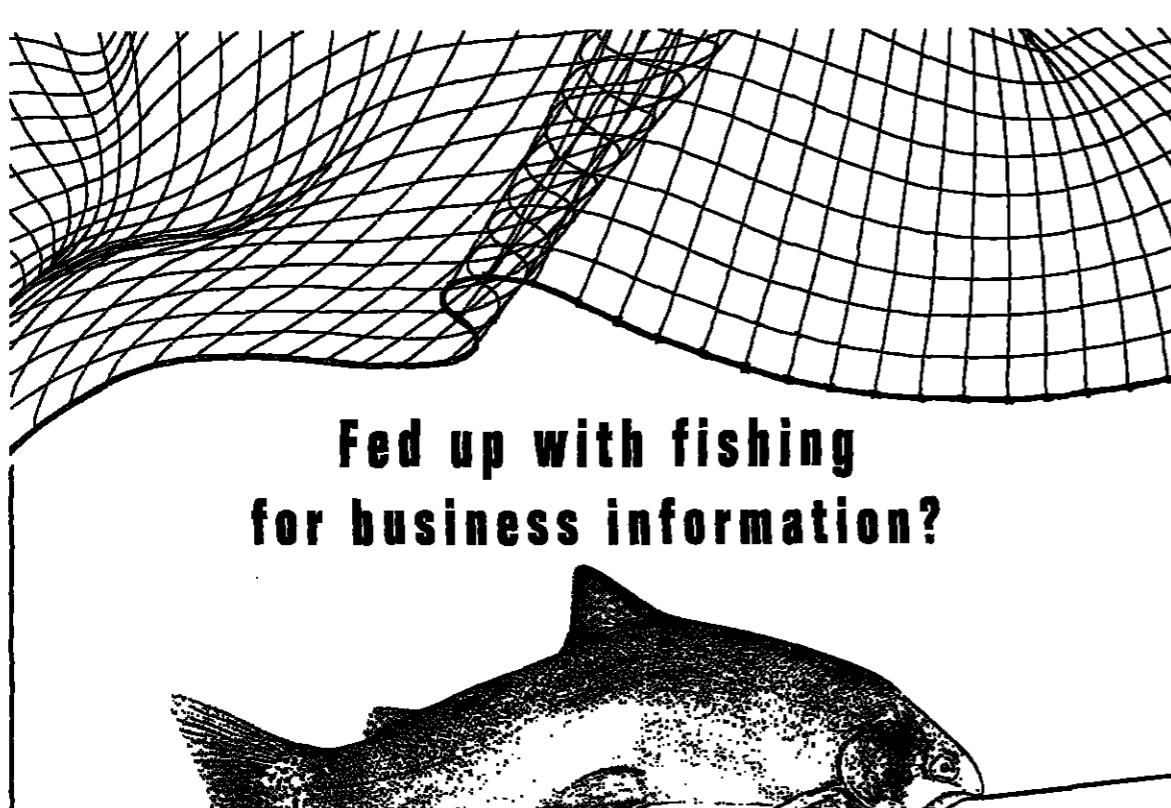
But this places national governments in an uncomfortable position. Good news comes from the global marketplace, from the success of big companies operating worldwide. Bad news about unemployment and continuing budget deficits comes from national sources.

Governments thus find themselves torn between global forces and national elections, between their desire to create a flourishing national economy and their insight that the world market cannot be fooled for any length of time.

While all of western Europe is bracing itself for the unforgiving discipline of the euro, heartache about national identity is also more pronounced – for understandable reasons.

In Germany the debate is just beginning over the dividing line between European integration and the nation state.

The author is director of *Stiftung Wissenschaft und Politik*, a German foreign affairs and defence policy institute



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Fall of the wall: sparked off a chain reaction

Policy

EDITORIAL

the Russians

Frank Blackaby, *Financial Times*, London SW1 9HL
Frank Blackaby, *Financial Times*, London SW1 9HL

Not yet on the right track

FINANCIAL TIMES

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Friday February 28 1997

Drug policy and the US

Developments in Mexico in the last week provide more disturbing evidence that US demand for illegal narcotics is corroding the political institutions of neighbouring countries.

The arrest of Mexico's chief anti-drugs fighter has indicated the depth to which drug-related corruption has reached into that country's military. Many newspaper articles – some based on possibly questionable US legal testimony – suggest important connections between drug traffickers and politicians past and present.

The damage done by narcotics trafficking stretches beyond Mexico throughout Latin America and into the vulnerable island states of the Caribbean. It is the largest single threat both to democracy and to prosperity in several countries.

Yet it is the US – the world's largest consumer of drugs and no mean producer itself – which sets itself up as judge and jury of other countries' contributions to the drug-fighting effort. This is the annual exercise known as "certification".

Those countries which are decertified – such as Colombia last year – face economic and possible trade sanctions. Some governments may be deemed not to be co-operating sufficiently, but are exempted on national security grounds from sanctions. The administration is under strong pressure from

some legislators to point the finger at Mexico, its partner in the North American Free Trade Agreement. It will announce this year's verdict soon.

Clearly, the US has an important interest in combating drug use. Supporters of current policy argue that decriminalisation induced Colombia to take important actions – such as toughening woefully lenient treatment of convicted drug traffickers.

But the procedure has many flaws. It is inconsistent from country to country, and from one year to the next; it is doubtful whether the US's fluid yardsticks have much relevance to the market for drugs; it sets up confrontation between the US and other countries instead of co-operation; and it reinforces the illusion that the US drug consumption problem is the fault of evil foreigners.

Moreover, the continued plentiful supplies of all types of drugs in the US market suggest that the measures have had little practical effect. An attack on drug supplies and trafficking can be effective only when combined with serious efforts to curb demand. This in turn requires a significant shift in policy and resources, emphasising prevention, education, treatment and a changed approach to drugs-related crime in the US itself.

Bill at home

The latest fuss which is exciting the US media about president Bill Clinton is that he used the White House to entertain 938 "friends" over a four year period, to induce them to give millions to Democrat campaign coffers. Mr Clinton will not be brought down by such an impropriety but will be seriously embarrassed. But there is a risk that the media's obsession with sleaze and the mud-slinging which follows, could sour presidential relations with Congress and gum up the legislative programme.

The origins of the sleaze-hunt are easy to find. Republicans are nervous because of their narrow Congressional majorities and the apparent failure of the Republican revolution. Mr Clinton has moved to the centre politically. In the absence of a battle of ideas, it is not surprising that a battle of personalities and piety could result.

The Republicans also have skeletons in their campaign finance closet. Access to politicians is freely bought and sold on both sides, but Mr Clinton's allies had more to sell. The investigation which the Senate has now initiated has promised to look at financing misdemeanours in both parties. If it holds to this resolution the impact on the president will be damped.

Mr Clinton said in his inaugural address "Let us commit ourselves tonight before the eyes

of America, to finally enacting campaign-finance reform." In relation to this larger ambition, Mr Clinton's entertainment at the White House and donations from abroad are relatively minor transgressions. They must not be allowed to dominate the real reform debate, which should focus on stemming the tidal wave of cash spent on campaigns: an estimated \$3bn in all elections in 1996.

Politicians' appetite for money is driven by the increasing importance of television advertising. In the 1996 Congressional elections, 90 per cent of voters outspent their opponents. Allowing for the extra fundraising ability of incumbents, two-thirds of the biggest spenders won in open contests.

It is too soon to tell whether the overnight-guests affair will have wider repercussions. So far, it has had little effect beyond Washington. Polls say that most Americans do not care if Mr Clinton used the White House to boost his campaign war chest.

The people re-elected Mr Clinton despite much more serious allegations about Whitewater, "travelgate" and the FBI files. It would be unfortunate for the US – and the world – if relations between president and Congress were undermined by a lengthy partisan battle over campaign financing.

Policy studies

Does the UK need more research in media studies, communication, sociology and the performing arts and less in economics, civil engineering, languages, law and mathematics?

It is one of the more controversial questions to emerge from analysis of next year's £2.4bn settlement for higher education announced yesterday. One small part of the changes to the future funding formula points to just that result – an increased allocation of research funds to newer subjects at the expense of older disciplines.

Such a shift is probably needed; provided that it does not go too far. This is partly because of the growing contribution the leisure, service and communications industries make to GDP, and partly a reflection of the research which is actually taking place in higher education.

For similar reasons, more money has been allocated to clinical research and nursing, and less to classics, for example. These changes are being phased in, partly because the Higher Education Funding Council would like a debate on whether it should include a "policy factor" in its research allocations – allowing it to influence research priorities in future.

The debate will be lively – and more controversial than yesterday's overall settlement, which represents a sensible job in a difficult year.

The outcome, broadly, is more

money for the research-led universities and those with high class research, and less in real terms for the rest. Some will face a painful cash cut.

But by rewarding good performance wherever it is found, the council is managing both to encourage the elite in the leading universities and to allow good performers in the less research-based institutions to survive and prosper, thereby encouraging others to emerge.

In a tight year, the council has also been right to phase in the changes. Over-rapid shifts in income are unlikely to benefit either the winners or losers.

The earmarked pot for educational research, focusing on better teaching methods and practice, is welcome, as is the decision to use some of the funds for the former polytechnics to encourage research links with industry and other universities.

The latter is one way of ensuring that while selectivity in research funding favours the strong, others can be encouraged to join them.

The settlement announced yesterday, sensible though it is, can only be a holding exercise. The extra funds for the elite will probably hold off the introduction of tuition fees for the coming academic year. But all the big questions about university funding and structure still remain. Sir Ron Dearing's report on the answers, due in the summer, cannot come too soon.

The outcome, broadly, is more

Toddy Mr P. Chidambaram, India's reformist finance minister, will deliver what will be one of the most widely watched budgets in India's history.

In the five years since Mr Manmohan Singh, his predecessor, set in motion the dismantling of four decades of closed, statist economic policies, India has attracted unprecedented foreign interest. Few better global investment opportunities have emerged since China's opening nearly 20 years ago: India is a land of 850m people, with a reported 150m to 250m middle-class consumers, and everywhere a sagging infrastructure in dire need of foreign money.

The long-term prospect of the Indian market remains. But it has not proved the gold-rush that foreigners – or India's government – expected. Five years on, foreign direct investment flows form a disappointingly flat curve, rising only from \$1.5bn in 1994-95 fiscal year to \$2.1bn last year and \$1.7bn for the first nine months of the present fiscal year. This is well short of the \$10bn targeted by the United Front government, and is dwarfed by the \$38bn China received last year. The ratio of actual to approved foreign investment is only 30 per cent.

The figures betray disappointment among many investors, some of whom have found the Indian consumer market smaller than they hoped. "We thought the market was 150m people," says Mr Kimihiko Toki, Sony's business developer in India. "But actually, the number of people who buy branded goods is much less, perhaps the size of Vietnam or Malaysia."

In pursuing big infrastructure projects in power, telecommunications and transport, investors have found the going far tougher than expected. They have discovered an investment process often dogged by burdensome and unformed legislation, as well as bureaucratic requirements that remain arduous and complex. Politically, they encounter residual nationalist resistance to wider economic opening.

In particular, there is pessimism about the momentum of reforms, given the strong influence of left-leaning members in the 13-party coalition – an odd bedfellow of free-market economists, communists and populist regional politicians.

Mr Chidambaram and Mr Murasoli Maran – the industry minister and one of the administrators' few convinced liberalisers – have done much to broaden and simplify the investment regime during the government's eight months in office. Mr Chidambaram is promising more reforms in today's budget.

But after the initial explosion five years ago of moves to deregulate industry, liberalise financial markets, cut and rationalise taxes and tariffs, and open up sectors such as power and telecoms to foreign investment, the pace – and daring – of India's reforms has abated.

Many international investors believe the dismantling of India's socialist legacy is, at best, half achieved. It may, they say, take an outright economic crisis – like that in 1990 both prompted and permitted Mr Singh to act – to force the pace of pending

reforms. These include liberalisation of insurance, reform of labour laws, and the privatisation – or at least a thorough commercialisation – of India's sick public sector utilities and corporations.

One south-east Asian diplomat chooses the metaphor of India's lumbering Ambassador car to describe the speed of reforms. "We thought they would move quickly from first, second, third into fourth gear, but they've got stuck somewhere between second and third," he says. "It's like an Ambassador riding along an Indian country road. They seem afraid to move into fourth gear for fear of the pot-holes."

The shift in foreign sentiment was illustrated this week with news that Siemens, the German electrical engineering group, is to restructure its 51 per cent-owned Indian subsidiary. The move is to stanch losses arising from what the company has described as an over-ambitious reading of India's power and telecoms opportunities.

Being in India "is like the prisoner's dilemma", says an executive with a western power company, four years into contractual negotiations with state agencies to complete a 100MW project. "We all want someone to walk out, and help shake things up. But no one wants to be the first." But the size of the market that drew investors to India in the first place is likely to keep most

of them in the country. Instead of walking out, some investors are extending the timetables of their original business plans, or quietly scaling down business development offices. Examples of companies that have reined in their original aspirations include US West, the US telecoms group, AES Transpower, the US power group, and Seagrams, the Canadian drinks company.

It is not all bad news. Korean companies, notably Daewoo and Hyundai in the motor sector, have recently announced big investments. Japanese companies, too, are hatching new investment plans. Toyota, the carmaker, has said it is committed to entering India. Honda, its rival, has already done so, announcing plans to manufacture its Honda City car near Delhi. The appearance of 135 Japanese companies at a Delhi trade fair earlier this month was the biggest such gathering by potential Japanese investors in the past five years, according to Japan's industry ministry.

But Japanese companies take a longer-term view. "There are too many players in the same market in the same period," says Mr Yoshiaki Nakamura, Honda's Indian marketing director. "But if we have prepared the ground, we will have an opportunity here... Fortunately our management allows us to take the risk, and take the time."

Neither are reforms entirely bogged down. The government points to a recent flurry of measures, including opening the government bond market to foreign investors; de-licensing new industries, such as consumer electronics; broadening the number of industries eligible for automatic foreign investment; moves to deregulate the coal industry; and impending new company and takeover laws.

Meanwhile, the Indian economy remains strong, with the latest figures putting economic growth at an annual 7 per cent in the two years since 1994. This year strong agricultural output appears to have offset an industrial slowdown to produce an estimated 6.8 per cent rise in gross domestic product.

Many investors are convinced, though, that the reform process will inch along and muddle through, rather than being propelled forward by a crisis. "We'd like to see the pace of change accelerate. But I just don't see it happening," says the representative of a western insurance group.

"Instead, I see the government taking tiny, baby steps – each prompted by the need to tip toe clear of the abyss."

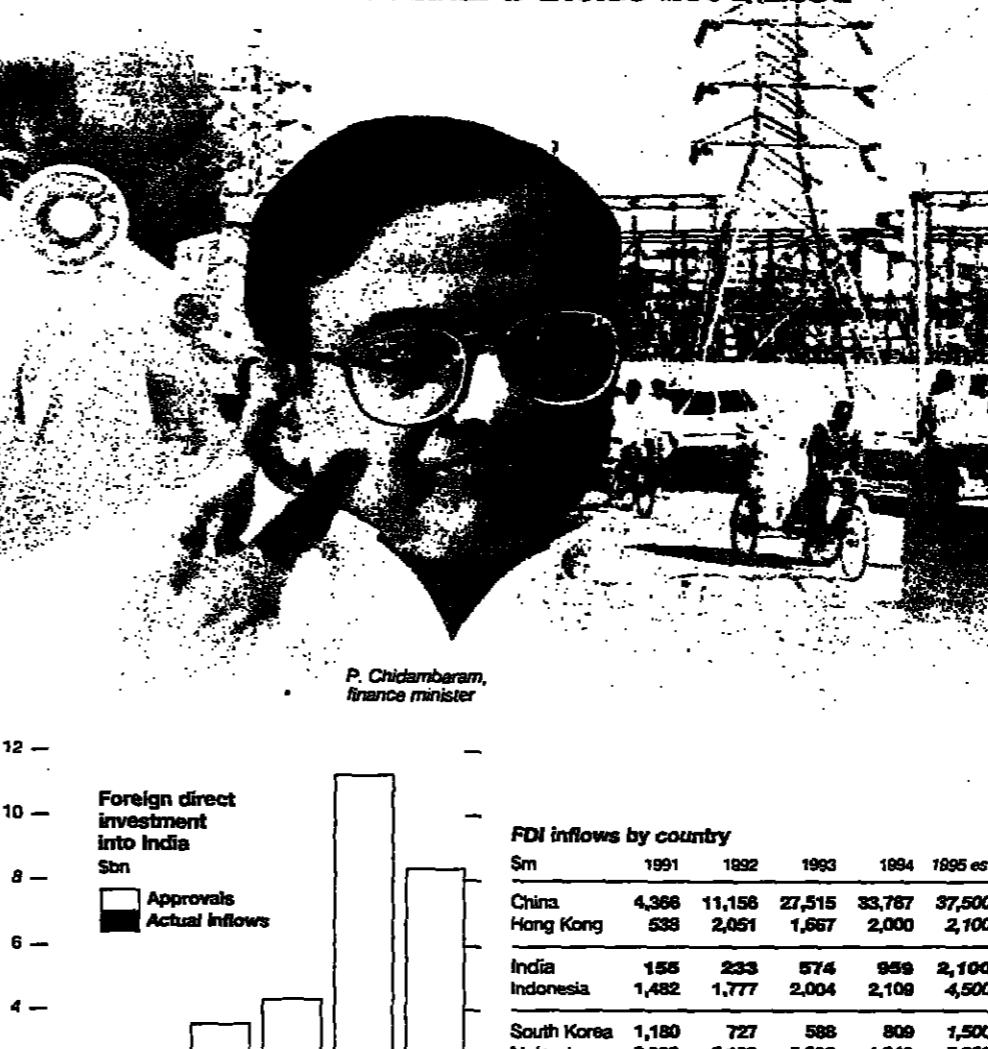
Of course, Mr Chidambaram might surprise everyone. A clever, proud and ambitious politician, his temperament is not inclined to "tiny, baby steps". Given the fragility of his government's power, history may not offer him another chance to ensure his place as an architect of India's modernisation. All eyes will be on the finance minister.

COMMENT & ANALYSIS

Stuck in second gear

Today's Indian budget must speed up reforms if it is to revive confidence in the modernisation process, argues Mark Nicholson

Investment flow into India: a trickle not a flood



OBSERVER

Harmonious monickers

All credit to BTZ-CRA for shedding one of the ugliest blots on the corporate namespace. What does it matter that the new monicker – Rio Tinto – alludes to Spanish copper mines which were sold a generation ago? Anything is better than the tongue-twisting combination of initials that has been taxing investors since last year's Anglo-Australian mining merger.

While Rio Tinto last appeared on the company letterhead back in 1984, when BTZ was formed, the fashion for adopting initials reached its height in the 1970s. The decade of flared trousers and kippies left a legacy of uninspired corporate names including BTZ, BICC, and B&T industries. As late as the 1980s companies were still at it, though: what was wrong with Guest Keen & Nettlefolds anyway?

Of course not all companies succumbed to the acronymic temptation when they wanted to signal a break with the past. Remember how

Massey-Ferguson reinvented itself as Vistry Corporation? Burroughs and Sperry took plenty of stick for changing to Unisys, but at least they were brave enough not to plump for

that Guernsey will continue to set its own taxes as always" even if Enron goes ahead. And if Guernsey's position is anomalous, he notes, "what about Switzerland?"

Playing along

Congratulations to historic harpist Anna Leekes who yesterday became the first woman officially to become a member of that all-male bastion the Vienna Philharmonic.

Not that Leekes hasn't earned her spurs: she has been plucking her strings with the American orchestra since 1974. But because she was a woman she was not allowed to become a full member of the highly-regarded but resolutely all-male club.

But there is a word of warning. Although the orchestra voted after a four-hour meeting that it was finally time to admit women – after pressure was exerted by Austrian Chancellor Viktor Klima, among others – there was a hint that Leekes might have to continue as the only female member for a while.

There will be auditions in the summer for a tuba, a trumpet, a double bass and a solo viola, says orchestra spokesman Wolfgang Shuster. And while women will be free to compete in any of these categories, tubas and trumpets are instruments not normally favoured by

women. Now does that sound familiar?

Down and out

Spare a thought for traders on Manila's stock exchange. Trading last a grand total of 18 minutes yesterday before computer technicians admitted defeat and business was suspended. The loss of business is estimated at over \$100m.

A few years ago it was the legendary "brown-outs" which wreaked havoc with Philippine business and industry as power shortages lasted up to 12 hours. President Ramos counts the end to the power crisis among his stoutest achievements. These days, however, the problem is a "computer malaise" which shuts down the Manila bourse several times a year.

"I'm delighted, actually," says one foreign broker enjoying his unexpected respite. "The market has been hampered lately. We're waiting for foreigners to come back and partake."

Time stands still

Looks like the Guinness finally got to them. A colleague purchased a fascinating calendar – "Georgian Days of Dublin" – in Ireland last year. It's bound to become a collector's item: the month of February has 30 days.

Davos, Switzerland, this month. "There is certainly consensus on the things which have been done already," says Mr Kirit Parekh, economist and director of the Indira Gandhi Institute of Development Research in Bombay. "There is also a political consensus about the things which will not be done." Among these, Mr Parekh includes any large-scale privatisation, anything "attacking" organised labour and any vigorous attempts to cut subsidies.

The government has been unable to hide serious rifts over critical reform issues. Mr Chidambaram is publicly committed to opening the state-monopoly insurance sector, for instance. He is opposed by members of his own cabinet and the Communist party (Marxist), whose external support sustains the United Front government in power.

On aviation policy, the finance, industry and commerce ministers all favour allowing foreign airlines to invest in the sector. In particular, they want to approve a long-pending joint venture proposal by Tata, the diversified Indian business house, and Singapore Airlines to set up a new private airline. But Mr C.M. Ibrahim, civil aviation minister, opposes this. He says that foreign capital is allowed, though foreign airlines themselves should not be permitted to take stakes in domestic carriers.

Moreover, the government appears to have lost the political courage that enabled it, in the early months of office, to raise state-controlled fuel prices. It has since balked at a second round of rises, even though the subsidy bill is approaching \$4bn. Such policy conflicts have led many observers to conclude that the political straitjacket on reforms might best – and perhaps only – be ripped away by an economic crisis. "It might be a good thing if we rushed headlong into a crisis," says Mr Pare

'Picture-frame' panel said to give brighter image

NEC offers 42-inch flat screen TV set

By Michiyo Nakamoto
in Tokyo

NEC, the Japanese electronics group, has become the first company to sell a large-screen television set that is as thin as a framed painting.

The TV, called PlasmaX, has a 42-inch screen, which NEC says offers brighter images and better contrasts than normal sets.

The PlasmaX went on sale yesterday in Japan for Y1.2m (\$9,600). It contains screen, tuner and speakers in a panel that is only 98mm thick, or one-tenth that of conventional TVs.

Japanese electronics makers have been rushing to develop flat screens in anticipation of a substantial demand due to the spread of multi media systems.

Flat screens are expected to be popular in Japan, where bulky conventional sets have hogged much of the limited space within homes.

Plasma display panel (PDP) technology, which most manu-

facturers believe is best for large-screen flat TVs, could not provide images as bright as those from conventional sets until recently.

NEC claims it overcame this problem with its new technology. The PlasmaX emits pure colours through a display panel which uses clear, thin, encapsulated filters to cut unnecessary light.

However, given high costs, it will take several years before PDP TVs become consumer products. NEC aims to reduce the price to about Y420,000 for a 42-inch TV by 2000.

In June, the company plans to start mass-production of PDPs, which it wants to use as monitors for personal computers, digital video disk videos and TVs. It expects to produce 300,000 plasma display panels by 2000 as well as 200,000 plasma display TVs.

"We consider PDP a very important core technology in the multimedia age," said Mr Hisashi Kaneko, NEC president.

NEC competitor Fujitsu has

been mass-producing plasma display panels at a rate of 3,000 units per month since last October. Its consumer electronics subsidiary uses the PDPs to produce flat-screen TVs and estimates that initial production of 3,500 units in the five months to March will rise to 50,000 units next year.

Sony and Sharp tied up last September to develop large-screen flat display panels using plasma address liquid crystal technology that Sony has licensed from a US company. They aim to develop a 40-inch panel in the autumn for sale ahead of the Nagano winter Olympic games to be held in early 1998 in Japan.

Matsushita, meanwhile, has launched a 26-inch plasma display TV which is one-sixth the depth and about half the weight of equivalent screen-cathode ray displays.

The company believes the worldwide market for flat panels will reach a value of Y70bn while that for flat panel displays will grow to Y210bn by 2000.

Vatican chooses oil group to spruce up St Peter's

By Jennifer Grego in Rome
and Paul Betts in Milan

St Peter's Basilica in Rome is to have a full structural survey and facelift to prepare it for the millennium and the celebration of 2,000 years of Christianity.

In a much-needed fillip for the celebrations, which have been dogged by squabbles over funding and project delays, the Vatican yesterday signed up Eni, the Italian oil group, to provide technical and scientific support to check the basilica's foundations and structures.

Eni will also help clean the 400-year-old marble facade, built by Carlo Maderno. It was last cleaned 10 years ago.

The only immediate danger to the facade appears to involve the risk of the little finger of St James the Greater breaking off.

But while many other historic buildings in Rome are in far more urgent need of restoration, Eni was lured by the high profile of the St Peter's project.

The oil company can be sure of the largest possible audience for the smallest possible cost: it is spending a mere £5bn (\$8.4m) over three years.

Mr Franco Bernabe, Eni's chief executive, said his company did not regard the project as a commercial operation, rather a contribution to improving the face of Rome.

Japan's ministry of transport says the dispute is a private matter that should be settled between Japanese and foreign shipping companies and the harbour association.

The shipping companies, Mitsui OSK Lines, Nippon Yusen and Kawasaki Kisen, issued a statement saying the US move was a "totally unjustified measure" that imposes unilateral sanctions on three companies which are in no way responsible for restrictive practices. The sanctions could cost Y5bn (\$40.1m) a year.

Beneath the rhetoric there is support for change. Japanese companies have also been victim to the dominance of the harbour association and have pressed for the industry to be deregulated and petitioned the government to liberalise the licensing of stevedores.

The total cost is estimated to be £3,400m.

About 40m pilgrims are expected to visit the Eternal City during the millennium celebrations.

Japan threatens court move over US shipping sanctions

By Michiyo Nakamoto
in Tokyo

Japan may take the US to the International Court of Justice over the decision by the US Federal Maritime Commission to impose sanctions on Japanese shipping companies.

Mr Seiaku Kajiwara, chief cabinet secretary, yesterday called for immediate withdrawal of the decision and said Japan might take the case to the court in The Hague.

Mr Yukihiko Ikeda, Japan's foreign minister, and Mr Makoto Koga, transport minister, released statements criticising the US move as violating the bilateral treaty of Friendship, Commerce and Navigation.

The sanctions, announced in Washington on Wednesday and effective from April 14, will impose a fine of \$100,000 each time a vessel owned or operated by three shipping companies enters a US port from abroad.

The sanctions are a response

to practices at Japanese ports which foreign shipping companies say severely restrict their ability to use these ports efficiently and at reasonable cost.

The European Union has taken Japan to the World Trade Organisation over the practices.

Specifically, the maritime commission noted that the dominance of the Japan Harbor Transportation Association, representing harbour workers, imposes unnecessary onerous regulations and high costs on shipping companies – and that these are condoned by the Japanese authorities through regulatory and administrative measures.

In particular, foreign companies have criticised the system of prior consultation, in which they are required to inform the harbour association of any change, however minor, to their port schedules.

The US commission claims Japanese authorities have allowed the system to persist

by not providing licences for new entrants to the stevedore sector, thereby blocking competition and ensuring the dominance of its harbour group.

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Brussels may block Anglo bid to raise Lonrho stake

Continued from Page 1

and rhodium markets. "The commission fears that Anglo would be able to dictate the price of platinum for products such as catalytic converters and jewellery," said a Brussels lawyer. Last year Mr Van

Miert blocked a merger of Lonrho's platinum division with Impala, a subsidiary of Gencor, another South African group, on the grounds it would have led to a monopoly in the platinum market with Anglo. "I can't really see that there is a razor blade's differ-

ence between the two cases," said one British diplomat. Gencor is appealing against the decision at the European Court of Justice.

Mr Van Miert could either

order Anglo to reduce the size of its shareholding in Lonrho or impose a voting block,

rendering Anglo's shareholding impasse. Such an order would pose serious problems for Anglo – the world's biggest platinum producer via its Rustenburg offshoot – which bought the bulk of its Lonrho shares at 180p. They closed at 141p last night.

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JPK (6/352)

European Bank
for Reconstruction and Development

The European Bank has a unique challenge to assist the countries of central and eastern Europe and the former USSR in their transition to market economies.

The European Bank supports projects in its countries of operations through lending, taking equity positions and providing technical assistance.

EBRD's Office of the General Counsel • handles all legal aspects of the Bank's lending and investment transactions.

• handles all legal aspects of the Bank's finance operations, including the Bank's borrowings, treasury investments and derivatives transactions.

• provides legal advice for institutional, administrative and personnel matters, and

• implements a legal technical assistance programme to support the legal transition process in the countries of Central and Eastern Europe.

Along with a competitive compensation and relocation package, we offer action and achievement in a truly historical enterprise.

RELD London-based Office of the General Counsel seeks (m/f)

Capital Markets Lawyer (ref. FT1086)

To join the team of lawyers in the Office of the General Counsel working with the Bank's Treasury Department, to handle as primary lawyer the legal aspects of a broad range of cross-border capital market transactions.

Work experience: five to eight years in a leading international law firm and/or a leading investment bank or other financial institution required. Substantial expertise in complex structured transactions, derivatives (including collateralised transactions, total return swaps and credit derivatives) and debt products including MTN programming required.

Telecommunications Lawyer (ref. FT1087)

Specialist in telecommunications law and regulation to join the Office of the General Counsel; advise on legal policy issues and assist in developing the Bank's approach to regulatory reform in the telecommunications sector; assess existing telecommunications regulatory systems in the Bank's countries of operations; design and implement legal technical assistance projects.

Work experience: at least five years of work on telecommunications issues in an international law firm, the legal department of a major international telecommunications company or the relevant regulatory body of an EU member country required; experience in financing transactions in telecommunications industry desirable.

General Requirements: • Education: law degree from a leading university required; non-graduate law degree from leading university another country desirable.

• Skills: excellent legal drafting in English required; knowledge of another European language desirable.

To apply, please write in English quoting reference number to: **Mr. Jim Miller, Principal Manager - Human Resources, European Bank for Reconstruction and Development, One Exchange Square, London EC2A 2EE, England.**

All applications will be acknowledged.

Please help by telephoning:

CA Partnership

Glasgow

£100,000 - £180,000

Tax Partner, Inward Investment Director, Fast Growth Business Partner

One of the "Big Six", our client not only survived the recession in terms of client retention and fee income, they also made major changes to their operations in terms of client service, organisation structure, strategic marketing and focus on high value issues.

These changes are bringing outstanding results with the whole practice at full capacity, servicing existing clients who are increasing their corporate activity, new clients whom they are winning constantly and high value advisory work which, unlike process routine, requires partners or possibly senior managers to identify, win and operate.

This rapid growth, plus recent internal promotions, has led to a requirement to recruit several partners and possibly senior managers from Scotland or beyond. Age is not an issue but ability is.

TAX PARTNER

A first class current technical knowledge of UK Corporate Tax • the ability to create innovative tax saving schemes for PLCs and large multinational companies • currently a partner in a CA or law firm, a corporate tax manager or perhaps in the Inland Revenue. Ref: CA/FT/TP

INWARD INVESTMENT DIRECTOR

Establish the firm as a first point of contact for all parties related to inward investment e.g. Government, LECs, investors, sister offices in the Far East, US and Europe • create broad based fee income for all departments from inward investors • currently in Government, inward investment bodies or consultancy at senior level. Ref: CA/FT/II

FAST GROWTH BUSINESS PARTNER

This is one of the most satisfying but demanding roles in the firm, requiring general knowledge of every specialisation and strong relationship skills • currently a CA partner or manager blocked for promotion. Ref: CA/FT/LB

To apply in strictest confidence, please send full career details to Douglas Kinnaird CA stating salary requirements. Your identity is guaranteed not to be revealed without your express permission.

Mac Donald
KINNAIRDHUMAN RESOURCE CONSULTING - BUSINESS DEVELOPMENT TRAINING
RWF House, 5 Rosefield Street, Glasgow G2 5EZ.

INVESTMENT PROFESSIONALS

The Henry Cooke Group is an independent financial services company with subsidiaries specialising in investment management, corporate finance, unit trust management and financial planning. As a result of expansion in the Manchester investment department, we wish to make a number of new appointments.

Account Executives: Charities and Private Clients

The investment department is divided into specialist teams.

Our charities business is expanding rapidly and it is envisaged that the successful applicant will assist the head of the team in developing existing client relationships and contributing to the drive to win new business.

The private client teams manage the investments of discretionary and advisory clients directly as well as acting on behalf of solicitors and accountants. We require account executives to manage and develop new and existing client relationships.

Ideally, applicants will be graduates and MSc qualified. Relevant experience would be desirable. Personal attributes such as commitment to quality, professionalism and an ability to work as part of a team are essential.

These positions will be based in the Manchester head office and a competitive package will be offered.

Please send your application to Ted Geraghty, Personnel Manager, One King Street, Manchester M2 6AW.

Compliance Manager

The compliance team functions as a source of advice and expertise on regulatory matters and has an active approach towards day-to-day procedural aspects of the business. We wish to recruit a compliance manager who will report to the compliance director.

Although the main concentration will be on our private client activities, the successful applicant will be responsible for ensuring that each of our businesses is conducted in accordance with the rules of the appropriate regulator.

Ideal candidates will be graduates, but it is more important that they should have an extensive knowledge of regulatory requirements. Good written and verbal presentation skills are essential. The position is at a senior level and experience of the workings of a private client securities business would be an obvious advantage.

HENRY COOKE

Tel 0161 834 2332
Fax 0161 839 9649
e-mail henry.cooke@dial.pipex.com

GRADUATE CHARTERED ACCOUNTANTS

Two excellent opportunities exist to join the investment banking arm of this major world bank, a highly respected front runner in the international securities market. Looking to strengthen their management teams they seek outstanding graduate chartered accountants in their mid-30's to report to the Finance Director. The ideal candidates will have the flair and strength of character to make their mark in this fast moving and dynamic industry and possess proven management ability and excellent communication skills.

MANAGER: FINANCIAL REPORTING

City ~ c.£60,000 + Car Allowance + Banking Benefits

The Role

- Supervising a team of five people preparing of daily P/L and B/S information across all the firm's trading groups.
- Close liaison with trading functions and middle office.
- Implementation of new systems.
- Continued development of management reporting to meet the demands of changing business requirements and the market.
- Dealing with the firm's corporate tax affairs.
- Preparation of statutory accounts.

The Individual

- Innovative self starter.
- Banking background (possibly gained in the profession).
- Broad understanding of investment banking products.

Write with full CV and contact telephone numbers to Patrick Donnelly at:

PD Consultants, 23 Durdston Road, Kingston-Upon-Thames, Surrey KT2 5RR

MANAGER: REGULATORY REPORTING

City ~ c.£50,000 + Car Allowance + Banking Benefits

The Role

- To meet all the firm's regulatory reporting requirements.
- Liaison with regulators.
- Responding to all internal requests for regulatory information.
- Management of a dedicated Regulatory Group.
- Project management.

The Individual

- Pro-active problem solver.
- Experienced in Bank of England reporting.
- Knowledge of Capital Adequacy rules.

The salary for either position will not be a limiting factor for the ideal candidates.

APPOINTMENTS WANTED

PROP TRADER

Capital/futures markets

Increase your trading revenues.

Add one structured, experienced, controlled, disciplined.

risk measured trader

to your team.

Line managers please call in

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Cavendish Corporate Finance specialises in advising vendors of businesses. Clients include companies owned by venture capitalists and private individuals, and transactions include the sales of public and private companies, generally with a turnover of between £5 and £100 million. Since our formation in 1988, we have advised on some 90 transactions, including five to date in 1997.

We are seeking to recruit a high calibre, personable, executive with marketing skills. A high degree of technical expertise in mergers and acquisitions is assumed. The successful candidate will probably be in their late 20s to early 30s.

Applicants should write to Hugo Haddon-Grant at:

Cavendish Corporate Finance Limited
12 Cavendish Place, London, W1M 0NT

Regulated by the SFA

SENIOR U.S. GOVERNMENT BOND TRADER

Our client, the broker dealer arm of a major international Bank is seeking an experienced arbitrage trader in US Government Securities.

Responsibilities will include arbitrage trading, market making to European and Asian accounts from London, trading US risk positions during European time frame and an ability to liaise closely with group companies in Europe and Asia.

Candidates will have at least 10 years' experience of US fixed income markets with a broad knowledge of the US Treasury cash, futures and options markets including Government Sponsored Enterprises and Money Market products. Far Eastern work experience as well as a knowledge of Chinese and/or Japanese would be advantageous.

The salary and benefits will be highly competitive and consistent with current market practice.

To apply please send your CV in strictest confidence to:
Ray Turnbull, Partner, Capital Market Appointments.

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ADVERTISING

Financial Planning Mobile Telecommunications

c. £65,000
+ Car + Bonus

THAMES VALLEY

Cellnet is one of the world's largest and most successful mobile telecommunications companies. In just ten years since its formation, this new service is already taken for granted by millions of people in the UK with a growing number internationally. Having invested over £1 billion in the network, which now reaches 98% of the population, Cellnet is a mature organisation with the technical infrastructure and financial resources in place to support continuous



In order to maintain and progress this commanding record of achievement, Cellnet now seek to recruit a key individual within their finance team who will be responsible for supporting and driving key business issues across all aspects of operations, service provision and technology.

Supported by a highly skilled team of finance professionals, you will:

- Create and innovate ways in which finance can provide a more proactive input to the growth and development of the business.
- Appraise and monitor the financial and commercial performance of the business by developing and implementing sophisticated financial reports.
- Cultivate strong working relationships with senior management in order to promote an interactive flow of ideas and initiatives.
- Define, manage and promote a bespoke business planning and forecasting process across all functions of the business.

Successful candidates will be outstanding graduate accountants, aged in their early to mid thirties who can already demonstrate a successful career to date in a blue chip environment. A strong preference will be shown to those individuals who have worked in either the FMCG or related business sector.

You must be able to present and negotiate with executives at the highest level, possess superior interpersonal skills and be seeking a fast track career opportunity in a dynamic business sector.

Interested candidates should write promptly to Charles Austin or

Mark Rowley at Herst Austin Rowley, 30 St. George Street,

London W1R 9FA, enclosing a full Curriculum Vitae and quoting

reference HAR0121.

Fax: 0171 409 7872.

Alternatively you can

E-mail details to

mark@herst.co.uk

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FINANCE DIRECTOR

A Growth-Orientated Divisional Role

Thames Valley

Our client is a leading quoted international contracting group. Following a recent reorganisation, there is a requirement to recruit a Finance Director for their largest and most diverse division.

THE POSITION

- Executive responsibility for the Division's UK and international financial management and control.
- Provision of first class commercial and strategic direction and key input into the Division's acquisitions and organic growth.
- Interaction with Operational Board Directors to ensure that performance measures are understood and achieved.
- Key involvement in identifying innovative financing structures to match customer requirements.

If you are interested in this exceptional opportunity, please write enclosing full career and current salary details to the advising consultant, Jon Boyle at Questor International Limited, 3 Burlington Gardens, London W1X 1LE, quoting reference 2173. Tel 0171 292 8300. Fax 0171 287 5457. E-mail: Jon@questorint.com

to £60,000 + Benefits Considerable Bonus Potential

QUALIFICATIONS

- Graduate qualified accountant, aged early 30s to early 40s, with broad commercial and line management experience.
- Proactive and energetic style, capable of communicating effectively with all levels of an organisation.
- Experience of a multi-site group environment, with an international outlook and motivated by business development/M&A.

To £80,000 + bonus, International Manufacturing Group

Midlands

Head of Corporate Finance

Key role at the heart of an acquisitive and highly profitable £700 million+ turnover UK plc with an enviable growth record, well-balanced international profile and a dominant position in each of its chosen niche markets. Powerful balance sheet and strong City support underpins a well-proven and focused strategy for growth both organically and by acquisition. Significant opportunity for a well-rounded finance professional with M&A experience seeking enhanced responsibility and professional growth in corporate development and, in due course, general management. Excellent international career prospects.

THE ROLE

- Reporting to Group Finance Director with specific responsibility for corporate development and treasury as part of a small head office finance team.
- Working closely with the Board to identify and evaluate potential acquisitions internationally, developing proactive relationships with key financial advisors in the City.
- Overall strategic management of treasury, supervising an established high quality function, focusing on funding and balance sheet management.

THE QUALIFICATIONS

- Graduate, Chartered Accountant, aged 30 plus, with M&A experience gained in either a merchant bank or a corporate, preferably an industrial group. Second European language an advantage.
- Strong analytical skills and broad business overview combined with first rate written and oral communication skills. Comfortable handling complex negotiations at senior level.
- Accomplished networker and relationship builder, capable of operating effectively as part of a small head office team. Self-starter with the ability to work independently.

Please reply with full details to:
Michael Page, 16 Cromwell Place,
London W1 2ED

Selector Europe
Spencer Stuart

BMA
PROFESSIONAL
SERVICES

Taxation Manager

£45,000 + Bens

The British Medical Association has over 106,000 members and was founded more than 150 years ago to promote the medical and allied sciences and maintain the honour and interests of the medical profession.

BMA Professional Services Ltd (BMAPS) is a wholly-owned subsidiary of the BMA which provides high quality dedicated taxation and accountancy advice.

BMAPS now requires a Taxation Manager to take managerial responsibility for the provision of taxation advice to members. Reporting directly to the Chief Executive, key responsibilities will be:

- Providing high quality taxation advice to the members.
- Presenting seminars and writing technical articles and updates.
- High level responsibility for the management of all aspects of client service.
- Assisting in the development of BMAPS throughout the UK.

MP
Michael Page Taxation

Specialist in Taxation Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
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c. £80,000 package
+ excellent benefits

BURMAH CASTROL

Swindon

Finance Director

Internal promotion provides a superb opportunity to join this well-regarded FTSE 100 multinational as Finance Director of Castrol (UK) Limited, a £120 million turnover business. High profile commercial role in a business operating in competitive and complex consumer and industrial markets. Involvement in pan-European and global projects, with excellent career potential internationally.

THE ROLE

- Reporting to the Managing Director and a key member of a close-knit executive team, with active and broad contribution to the strategy and development of the business.
- Continuously improve the finance function, sharpening analysis and control, and reviewing business processes. Provide leadership, training and development to c. 50 staff.
- Participate fully in a variety of global and pan-European initiatives.

Leeds 0113 230 7774
London 0171 298 3333
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Selector Europe
Spencer Stuart

Please reply with full details to:
Selector Europe, 16 Cromwell Place,
London W1 2ED

A key role in the management of a substantial overseas manufacturing partnership

FINANCIAL CONTROLLER

This international plc group with annual sales of £150m+, manufactures high quality clothing for major retailers in the UK and continental Europe. Their overseas operations include a partnership with one of the leading manufacturing businesses in Sri Lanka, accounting for 50% of production.

The Financial Controller will be based in the capital Colombo, a vibrant city with an established expatriate business community. The person appointed will be given significant responsibility and scope.

Sri Lanka

- Perform a key role as a member of an established, multi-disciplined, expatriate management team
- Responsible for financial and management reporting to the UK, business administration and staff development/training
- Improve cost performance, efficiency and profitability
- Develop and influence production of financial information from Sri Lankan management

The Person

- Qualified accountant with extensive experience of financial and management accounting, preferably with some background in manufacturing
- Well developed business skills gained in a fast moving, high quality environment
- Excellent communication and interpersonal skills

In order to facilitate this key appointment, a minimum 3 year ongoing contract will be offered, together with accommodation, car, healthcare, pension, return flights and bonus after 3 years.

To apply, please write to James Whelan, Hays Executive, St James' House, 7 Charlotte Street, Manchester, M1 4DZ. Tel: 0161 228 2727.

Hays Executive
STRATEGIC SEARCH & SELECTION

Corporate Auditor

(International Assignments)

100,000 - 125,000 DM

Our client is a major blue chip organisation with a world wide turnover of £4bn. They now have an extremely challenging role within the Corporate Audit Department for a highly skilled individual who can demonstrate a range of business talents.

Based in Germany, your major tasks will be to perform systems review, identify areas for performance improvement, have an impact on areas where efficiency can be improved and consequently add value to the business exercise.

In addition, traditional auditing practices such as operational review and control, need to be supported by the compilation of substantial reports, which in turn will form the basis of the company decision making process.

A degree, a full CA, ACA or ACCA qualification, the ability to speak German and a high degree of computer literacy, are all essential. Since this opportunity is also a definite route to a Managerial post it is extremely likely that you will have a "big six" background.

As you will spend around 40% of your time travelling a highly adaptable and flexible attitude coupled with an international background is desirable.

In return, the company offers an excellent salary and benefits package, but most importantly the promise of a career with an organisation of international standing.

Please send your C.V. by fax to 0141 303 4468 or by post to Gordon Adam, Direct Resources, St Andrews House, 385 Hillington Road, Glasgow G52 4BL.

**DIRECT
RESOURCES**

FINANCE DIRECTOR

Saudi Arabia

c.£55,000 (net) + Car
+ Bonus + Share Options
+ Full Expatriate Package

Our client is a £100m turnover company, involved in volume manufacturing/distribution, and is an integral part of one of the world's leading organisations.

An excellent opportunity exists for a highly motivated and enthusiastic finance professional to take up this key management position. You will head the finance function consisting of 100 staff operating across several sites, and will participate fully in the commercial management of this substantial business.

The successful candidate will be a qualified accountant with proven senior management/board experience ideally gained within a manufacturing/distribution environment. This is a high profile position and as such represents a genuine career opportunity.

Interested candidates should in the first instance send their CV together with details of their current salary, work and home telephone numbers to Jeff Price at ABPM, Redridge House, 9 Bailey Lane, Sheffield S1 4EG. Tel: 0114-278 0011, Fax: 0114-273 8384. Email: gp11@abpm.co.uk. Please quote reference gp11f.

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OFFICES AT BIRMINGHAM, LEEDS,
MANCHESTER, NOTTINGHAM AND SHEFFIELD



International Energy Services

Ernst & Young is a \$7.8 billion organisation, with 72,000 people in more than 130 countries, and is one of the world's major professional services firms.

Our Energy Services industry group is one of three core strategic groups established by the international firm which, through its World Energy Centres in London, Houston, Jakarta and Moscow, co-ordinates client services on a market sector basis. Already a leading service supplier in audit and tax, our goal is to become the undisputed world No. 1 in the provision of professional services to the energy industry by the year 2000. Substantial investment in the emerging markets is a critical element in the achievement of this objective, and several key appointments must be made, including:

Practice Leader Central Asia

Reporting to the CIS Managing Partner in Moscow, you will be responsible for:

- The management of service provision to key international audit clients in the Upstream Oil and Gas industry.
- Planning and management of other audit engagements in the industry.
- Reporting to Ernst & Young co-ordinating partners with respect to relationships with the subsidiaries of multinational clients.
- All aspects of practice management and development.

The appointment could be made at partner or partner-designate level, depending on experience.

Other Energy Services Opportunities

CIS, Far East, Latin America

We have other energy services opportunities around the world for Audit and Tax Seniors, Managers and Partners. The general requirements are as follows:

Audit and Business Advisory Specialists will be Big 6 trained internationalists, currently in the profession or in a major international upstream oil and gas company. Excellent experience of the target sector and of the practical application of international reporting requirements (US/UK GAAP) and accounting standards is essential.

Tax specialists could come from a leading accountancy or law firm, or from the oil and gas industry.

To be effective in these operational environments, and depending on the level of entry, you must be able to demonstrate initiative, personal energy, confidence and self sufficiency, allied to an instinct to lead, communicate and collaborate. For the more senior posts, a record of success in selling and delivering professional services in emerging markets is necessary.

Remuneration packages will reflect the importance of these appointments in establishing centres of industry excellence around the world and, hence, a global network of professional knowledge and expertise.

If you wish to be considered for any of these opportunities in our international energy services group, please send your curriculum vitae, including details of current remuneration and a summary of how you meet the requirements, to Neil Cameron at Ernst & Young Management Resourcing, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting ref: NC 0095.

DIRECTOR & DIVISIONAL FINANCIAL CONTROLLER

c£55k plus benefits · North London

Part of a multi-national plc valued at over £2 billion, our client manufactures a range of products for the domestic, commercial and light engineering markets. The Division, which turns over approximately £150 million, has ambitious development plans. To help achieve these objectives, through both acquisition and organic growth, they are seeking an outstanding divisional finance executive.

- excellent analytical and problem-solving skills, with a keen sense of commercial opportunity and business judgement
- a highly interactive approach, able to enhance communication at senior level and add value to management teams
- flexibility of approach in developing financial and commercial strategy leading to decisive action
- strong professional and educational qualifications, preferably with a sound working knowledge of another major European language.

The successful candidate will make a substantial impact upon an already impressive business performance, in a company which offers excellent opportunities for career growth.

To apply, please write, enclosing your CV and current salary details to the consultant advising our client on this appointment, David Bligh, Mercuri Urval, Spencer House, 29 Grove Hill Road, Harrow, Middlesex HA1 3BN. Fax no: 0181 861 1978, quoting ref: JC/V/DFC.

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ALLIED DOMEQ

Business Process Redesign

London

Salary will be negotiable
£40-70,000 + Benefits Package

Customer Process

Working with National Marketing and Sales Companies you will redesign customer related financial systems, establish the impact of these changes on the local businesses and oversee the implementation of the new systems. As part of a self-managed team, specific tasks will include:

- Standardising pricing structures
- Maximising the use of electronic settlements methods in each market
- Specifying systems requirements for a flexible credit vetting system for sales orders
- Detailing system requirements for a suitable collection management system
- Overseeing the development and implementation of the above systems

Previous exposure to Sales Administration systems or pricing/billing systems, or a background from within sales and marketing would be particularly relevant.



Whilst we are looking for specific qualities/experience in individuals, there are certain skills that will be particularly relevant to all three areas. It is envisaged that successful candidates will have a relevant business qualification, and a proven track record of success within a major international company. Previous experience of financial/systems redesign projects, change management and sales administration would be of particular interest, as would a high degree of international exposure. Possible backgrounds will range from mainline finance and business development roles in Industry, Marketing and Managing Directors of various Allied Domecq businesses. With this in mind, it is imperative that you have excellent interpersonal skills and the ability to influence decision-makers. A self-starter, you will be highly organised, possess excellent vision, be willing to undertake international travel and, above all, present a highly credible image.

These positions are initially planned to run on a 2 year project basis. Those individuals with the correct blend of personality and skills will go top level, international exposure within Allied Domecq, and it is envisaged that career progression could continue outside of their specific project.

Management Process

This high profile project will ultimately impact on all functions across the Spirits & Wine division and hence requires a broad base of business experience in an individual. With a high degree of cross-over with other project teams, specific duties include:

- The definition of common Critical Success Factors across the Spirits & Wine business as a whole
- The introduction of these definitions to operations management
- The training and education of local management on definitions
- Planning and managing specific implementations
- Constant liaison with other project teams and Human Resources on implementation

Previous experience within a large multinational group and exposure to both finance and sales and marketing would be especially relevant.

Accounts Payable

With specific responsibility for this vital area you will oversee the redesign of supplier related financial systems, assess their impact on local businesses and ultimately implement the redesigned systems in selected operating units. Managing this highly complex project, your principal responsibilities will include:

- Production of a detailed specification for the Purchase Order Management system operating as part of the redesigned Accounts Payable system
- Maximising the use of electronic payment methods in each market
- Design of operating procedures with regard to the use of Procurement Cards for Accounts Payable
- Overseeing the development and implementation of the above

Familiarity with supplier related administration systems, administration purchasing or relevant operational review/consultancy skills would be seen as advantageous.

To further your interest in one of these excellent opportunities, please contact our retained Consultants Matthew Densmore or Paul Gledhill at Executive Connections, 43 Eagle Street, London WC1R 4AP. Tel: 0171 304 9000 (evenings/weekends 0171 254 3849). E-Mail: allied.domecq@executive-connections.co.uk. Fax: 0171 304 9001. All applications will be treated in the strictest confidence. Please note: any CVs submitted directly to Allied Domecq PLC will be forwarded to Executive Connections.

GROUP FINANCE DIRECTOR

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Ref: GCFT120

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Project Co-ordination Unit
62-64 Stamboulijski Blvd., 1303 Sofia, Bulgaria
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EUROPEAN STOCK EXCHANGES

There has been severe pressure on institutions to reform their ownership, management and ambitions. John Gapper discusses the changes that have taken place

Out with the old, in with the new

Europe's stock exchanges have been through as many changes in the past year as most managed to pack into the previous decade. This partly reflects how little these sluggish and conservative institutions felt the need to alter their ways in the past. But it also indicates the severity of the recent pressures on them to reform their ownership, management and ambitions.

The results of legal changes such as the introduction of the Investment Services Directive, technological innovations, and the gradual emergence of an "equity culture" among European investors have been startling. Across Europe, exchanges are abandoning co-operative ownership, drawing together in fresh partnerships, and competing far more strongly with London.

There is more to come if European and economic monetary union occurs on time in 1999. Some observers believe the rationalisation of regional exchanges within countries will be followed by similar changes across borders.

Well-intentioned notions of co-operation could easily be swept aside in a far more intense and cut-throat form of competition for European broking business.

This is all occurring against a backdrop of growing interest in equity investments in continental Europe. The DM500m privatisation of Deutsche Telekom last year was a milestone for the modern German equity market, while interest is widening rapidly in countries such as Italy where ordinary people have traditionally distrusted

the insiders of the stock exchange.

European exchanges already face competition from outside the continent as well as across borders. As larger European companies seek access to capital in the US and among big institutional investors in London, global competition for listings of shares and depositary receipts is rising. Only the largest European exchanges may stand a chance in a global marketplace.

Furthermore, smaller and regional exchanges such as Stockholm and Amsterdam are no longer having it all their own way against a London Stock Exchange that has been through several tumultuous years.

In the past six months, London has shown signs of regaining momentum in introducing reforms such as electronic order-driven trading, and it also possesses historical advantages.

Among the biggest changes affecting European exchanges have been:

■ **Introduction of the Investment Services Directive.** From January last year, all member states of the European Union have been obliged to offer open access to domestic securities markets for regulated firms from other states. The ISD also introduced the idea of "remote membership", allowing a firm in one country to transact business on an exchange elsewhere.

In practice, the ISD has been a little slow in coming into effect. The European Commission has been taking enforcement action against Germany, Greece, Luxembourg, Spain and Portugal.

It has been easier for coun-

tries to implement the directive fully.

However, this has more to do with slow, domestic legislative programmes than matters of principle, and the ISD's effects are already clearly visible.

■ **Demutualisation of exchanges.** There has been a flurry of initiatives in smaller exchanges to move from mutual ownership by brokers and traders to public ownership by wider groups, including investors and listed companies. Both the Amsterdam and Milan exchanges are planning to go public this year, and Stockholm has already taken the plunge of changing ownership.

The exponents of such moves argue that exchanges can only react to a changing competitive environment properly if they are freed from the partial interests of brokers.

"If you were to blow the world up and start again, you would not produce co-operative stock exchanges," says Mr Benn Steil, head of international economics at the Royal Institute of International Affairs.

■ **Formation of partnerships and alliances.** The most notable moves have been within regions away from the central European block of France and Germany.

The ambitious attempt to gain co-operation between the Paris and Frankfurt bourses floundered over technology last year, although the French exchange hopes that its two electronic trading systems can be linked next year.

The Nasdaq exchange in the US as well as the European NM project involving the French Nouveau Marché.

Such initiatives have been greeted with enthusiasm, since the need for smaller markets aimed at companies without long-established trading records is clear. Yet there remain risks that European retail investors, who are slowly adjusting to placing cash in equities rather than in government bonds, could be put off by problems within what will inevitably be volatile markets.

■ **Creation of new exchanges.** This has occurred within countries, and across Europe to cater for the growing number of small companies seeking listings and flotations.

The past year has seen the emergence, if slow, of the Easdaq exchange modelled on the Nasdaq exchange in the US as well as the European NM project involving the French Nouveau Marché.

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■ **Technological innovation.** The move towards electronic order-driven trading has made it much simpler

for investors to trade remotely, choosing among exchanges according to transaction costs and transparency.

"If I want water, there is only one pipeline, but I can order my shares from wherever I want," says Mr George Möller, chairman of Amsterdam Exchanges.

Furthermore, technology opens up competition to exchanges from new rivals, including proprietary trading systems. Private firms such as Instinet, the electronic broker owned by the financial information company Reuters, can provide its mainly US investor base with access to many exchanges by acting as an

intermediary, and channeling share orders through one network.

Ultimately, this might lead to a world of stateless exchanges, or one in which investors' orders to buy and sell securities are matched by electronic networks rather than exchanges. Mr Gavin Casey, chief executive of the London Stock Exchange, argues that this is unlikely because of the emphasis investors place on being able to check on companies through listing information.

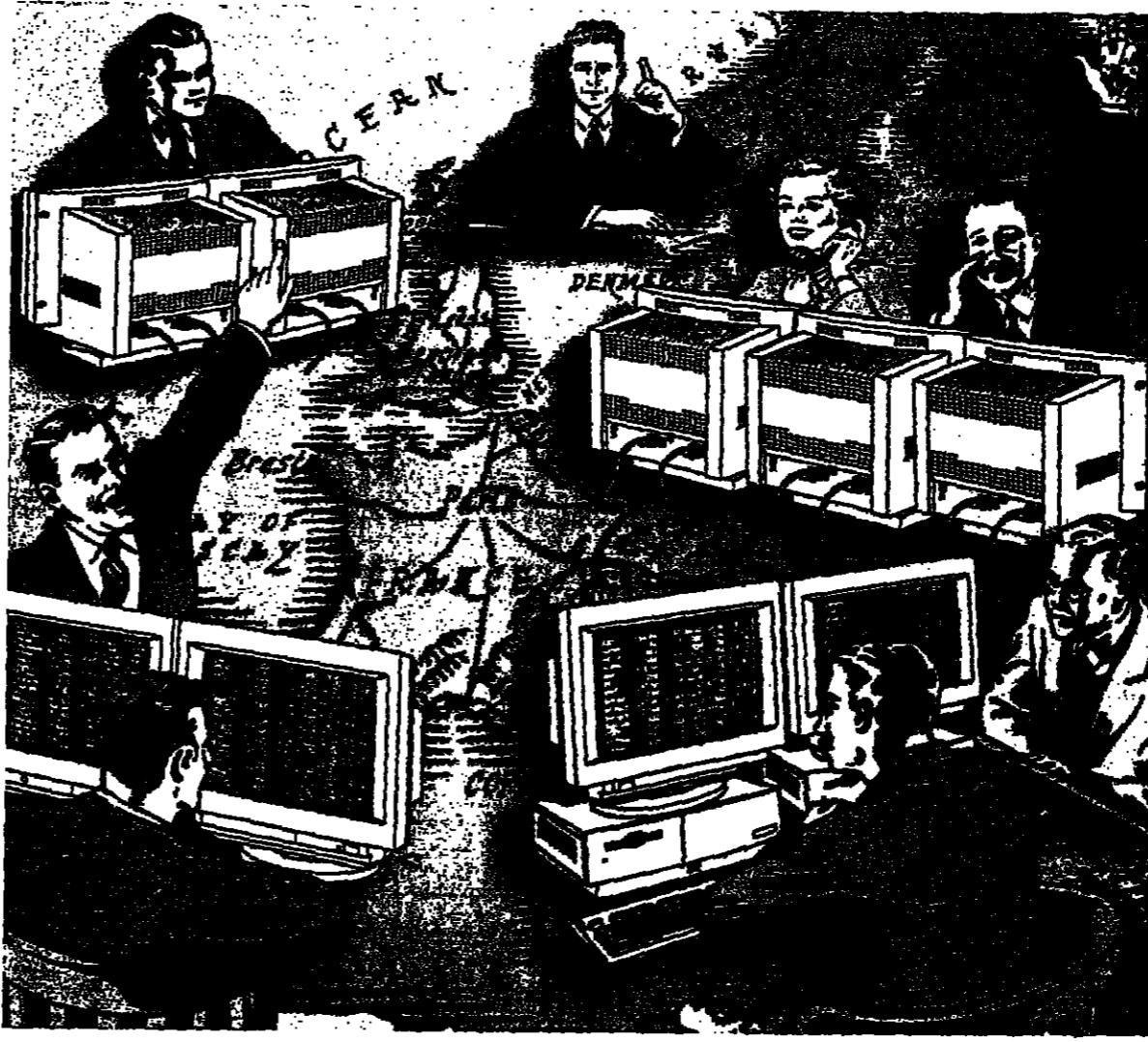
The optimists assert that European exchanges will be able to forge new forms of co-operation in response to external threats. Mr Théodore

tries on the geographical margin to see the benefit of clubbing together for size, and this has prompted Stockholm, Oslo, Copenhagen and Helsinki to enter talks. Mr Jean François Théodore, head of the Paris Bourse, argues that the escalating costs of technology will eventually force exchanges to co-operate at least on common trading platforms.

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- Easdaq and the Nouveau Marché
- Warsaw: an enviable reputation
- Milan: year of reckoning
- Other bourses
- Russia: strange beast is eye-catching

dore of the Paris Bourse says that the emerging demand from European investors for "a single zone of asset allocation" means that there will be "some kind of globalisation of the European market" through a network of linked exchanges.

Yet, others are sceptical about the possibility of exchanges working together when the forces of competition intensify. Mr Möller of Amsterdam says that some exchanges will no longer be able to afford the luxury. "Exchanges will be tougher towards each other. They may be extremely polite, but they will have to compete more fiercely nonetheless," he says.

Despite all the changes among continental exchanges over the past year, this competition could be on a broader scale than they have yet realised. Mr Steil of the Royal Institute says that the battleground has been misunderstood. "The myth is that Paris and Frankfurt are competing with London. The fact is that the real competition is coming from New York," he says.



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2 EUROPEAN STOCK EXCHANGES

LONDON • by John Gapper

Harmony after a turbulent period

The series of bitter rows appears to have had a cathartic effect

The London Stock Exchange has been in an unusual position over the past few months: it has been out of the news. After one of the most turbulent periods in its history, and the rapid loss of two chief executives, the exchange has started to regain its sense of stability.

The outbreak of relative harmony may not last. The exchange still has to gain regulatory approval for some aspects of its planned move to electronic order-driven trading on October 20. Furthermore, implementation of these radical trading reforms could well create further turbulence in London.

Yet there is a sense that the series of bitter rows first over the move to electronic settlement, and then to electronic trading, has had a cathartic effect. "Any institution can go through a tough time, but we are recovering from it well," says Mr Gavin Casey, its latest chief executive.

Mr Casey owes his position to the dramatic dismissal a year ago of Mr Michael Lawrence, the radical former chief executive who stirred discontent among its most powerful members. That stemmed not only from his attempt to reform its governance, but his effort to push through trading reforms.

In Mr Lawrence's wake, governance reforms that placed much more power in the hands of exchange officials have been toned down. Yet the move to electronic trading for FTSE 100 shares will go ahead unscathed, helped along by the public tumult that accompanied Mr Lawrence's departure.

Mr Casey has taken advantage of this renewed stability to reinforce London's effort to cement its position not only as the leading European financial centre, but as New York's only true rival as a global centre for listing and trading of equities from Europe, Asia and the Americas.

The exchange has also been helped by the fresh push by US investment banks and European banks to build operations in London. This has strengthened

the financial centre, and changed attitudes at institutions such as Smith New Court and S.G. Warburg when ownership changed.

Nonetheless, the exchange has re-established stability from a lower base. It has lost settlement responsibilities that not only generated revenue, but are increasingly used by rivals such as Amsterdam as a selling point. It has also had to delay reform, while other exchanges have accelerated progress.

Mr Casey admits that time has been spent over the past year getting the basics right. He points to reviews of strategy and governance last year. Neither produced a startling conclusion, but Mr Casey says that they were needed to establish what it was supposed to be aiming for, and how to proceed.

"It was important to review strategy, because although the exchange had been around for years, we had not looked closely enough at what we should be doing, and not doing. Without it, it was impossible to decide, and we were buffeted around by events outside our control," he says.

The most important

London: share volume 1996 (000)*

January	12,229,197
February	11,935,215
March	12,299,672
April	12,051,319
May	11,243,870
June	10,011,693
July	10,431,174
August	8,845,808
September	9,581,636
October	11,730,578
November	11,679,338
December	8,905,550
January 1997	13,618,422

* Datastream total market index

reform to be introduced this year is the move to electronic order-driven trading. This has been a vexed issue because the exchange's decision-making has historically been dominated first by jobbers on the floor of the exchange, and after 1985 by the equivalent market-makers.

Some market-makers – notably BZW, the investment banking arm of Barings – dragged their feet on reform. Yet the shift has been agreed, with the exception of transparency rules. It can be seen as the completion of London's "Big Bang" that led European stock mar-

ket liberalisation a decade ago.

Mr Casey says an electronic order book, which is already in place in other financial centres, will help reassure outsiders about London's openness. "US investors do not feel quite as happy with market-making. An order book will bring comfort that what you see is what you get," he says.

Yet the exchange is stepping into an uncertain world by the creation of a new regime for block trades – the equivalent of New York's "upstairs" market. No one can quite anticipate how trading pattern will alter when the switch happens, even if the exchange manages to avoid technical hitches.

This partly accounts for a modesty in Mr Casey's ambitions for the immediate future. "There are changes elsewhere, but it does not mean they are right for us. We are trying to put in place things that are vital for London's future, and we must not take our eye off the ball," he says.

Among the continental grands projets discounted by Mr Casey is the idea that the exchange might switch from

its ownership by members, and sell shares to outsiders. "In the longer run, we may look at ownership, but that would need a debate with our members that is not occurring yet," he says.

Mr Casey puts more emphasis on reinforcing London's place as a centre for international listing. The exchange has been stepping up marketing trips to emerging markets, in response to the push by the New York Stock Exchange to increase its listings of Global Depositary Receipts (GDRs).

He says that its success in gaining listings from China and Korea show that the exchange's recent travails have failed to dent its international image. "It is still a very good brand name. New York has many qualities, but we are still in the lead, and we intend to stay there," he says.

This success is also contributing to a slow revival in the exchange's reputation. "There was some damage, but it has not been terminal. There is a massive investment here from banks that have chosen to come to London, and tremendous goodwill for us to remain part of the scene," he says.



Gavin Casey: "we are recovering from a tough time"

PARIS • by Andrew Jack

Dreaming of an alliance

The idea is to create a company controlled by Paris, Frankfurt and Brussels

Mr Jean-François Théodore has a dream. The head of the Société des Bourses Françaises, the French stock market, hopes to develop an ambitious alliance with his neighbours which he likens to an Airbus-style joint venture in the financial sector.

A single company controlled by the exchanges in Paris, Frankfurt and Brussels, among others, would share technology and co-operate in the marketing of equities within the future Euro single currency zone to investors from outside the region.

It is the latest in a series of recent ambitious initiatives being taken by Paris as the competition heats up across European exchanges for business – to attract companies ready to be quoted, traders dealing in equities, and investors seeking opportunities for their capital.

Mr Théodore makes it clear that his organisation, the SBF, is no parastatal entity passively reacting to the change taking place around it. "We are a commercial company with a duty to make profits and pay dividends in a competitive environment," he says.

That is reflected in its first mass market advertising campaign launched at the end of last year in the French press, in part designed to lure new companies. "We have 700 French and 200 foreign quoted businesses. There are certainly lots more that merit a listing," he says.

Among the initiatives designed to encourage new quotations was the creation last spring of the Nouveau Marché, aimed at start-up high-growth businesses, of which there are now 20 listed, albeit with variable performance.

The bourse is working in a close alliance called Euro NM with similar markets in the Netherlands, Belgium and Germany. Others may follow. All that is helping it to steal a march on the rival pan-European Easdaq network aimed at similar companies and inspired by its New York cousin Nasdaq.

If the European Union's investment services directive – which theoretically came into law at the start of last year – demanded relatively little reform of the French market, it did serve as a reminder of the increasing scope for it to extend its tentacles into other European markets.

The SBF has placed trading screens and enhanced communications networks in London and other financial centres to control more business directly, and recently took a stake in a financial information system transmitted by satellite.

It also commissioned a mischievous study early last year arguing that the trade statistics reported by the London Stock Exchange's Seag International were vastly exaggerated, with just 8 per cent rather than the claimed 52 per cent of French equity transactions taking place through the London system rather than directly on the Paris bourse.

The SBF is making rather more significant preparations for the creation of the single European currency. In conjunction with the Matif, the French derivatives market, it is already gearing up to quote all its share prices in Euros from January 4, 1999 – another initiative which it believes will place it ahead of its rivals. "We have the feeling that we have the right cards in our hand,"

says Mr Théodore. "That may help it attract additional investors. So may the fruits of discussions likely to conclude next spring, which could lead to the bourse remaining open until 9pm, in an effort to trade until the closure of the New York markets.

It has also tried to boost

its services to investors by introducing new stock market indices to stand alongside its benchmark CAC-40 of the leading 40 quoted companies. These include the Mid-CAC, while discussions are under way with other markets to create a Europe-wide equities indicator.

Meanwhile, it has made a series of modifications to trading rules, including adaptations to off-market trading last year, and the introduction of "fill or kill" orders to help small investors which were unveiled in mid February this year.

But the SBF is also an active exporter from France. Its NSC, the computerised "new quotation system", which it has developed and uses, has brought it considerable commercial success and the prospect of tight partnerships with a number of foreign exchanges.

It is already in use in the Brussels, Toronto and São Paulo exchanges, and in modified versions in Tunis, Casablanca, Amman, Warsaw, Riga, Vilnius, Kiev, and Beirut. Its Super CAC system will replace the Reuters' Globex used by the Matif for out-of-hours trading, and the Chicago and New York Mercantile Exchanges seem set to follow.

Not all the initiatives have been so positive. Attempts to work with the Matif towards much tighter co-operation with their Frankfurt counterparts foundered last year after the Deutsch Börse opted for a rival computer system to the NSC.

And Anglo-Saxon institutions never cease to highlight the continued dominance of the London stock market for European equities, not to mention concerns about a long history of French interventionism which can raise suspicions and deter investors.

Indeed, a group of highly-respected French accountants and lawyers published a survey of their country's leading companies' annual reports in January which was critical of the quality of financial reporting.

Meanwhile, partly in the wake of the failed privatisations of the defence contractor Thomson and the bank CIC at the end of last year, there is still also considerable scepticism about how truly open the French market is to foreign investors.

There have been only two notable hostile takeover bids recently, and both were entirely "Franco-French": of the insurers AXA and AIA, and of the retailers Docks de France and Auchan.

Mr Théodore nonetheless argues that France is increasingly becoming an equity-based culture, and is inspired by both new legislation just approved to create top-up pension schemes and privatisations such as that of France Télécom, which he believes will the appetite for more. "It's a market like any others," he says.

Paris: share volume 1996 (000)*

January	330,442
February	332,792
March	340,756
April	334,029
May	320,886
June	428,485
July	401,789
August	197,214
September	355,863
October	332,883
November	480,873
December	369,463
January 1997	440,960

* Datastream total market index

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DEUTSCHE BÖRSE • by Andrew Fisher

New era dawns in Germany

The number of quoted stocks is small in relation to the size of the economy

Traditions are being unmercifully overturned on the German stock exchange. Not only is full electronic trading on the way - which will bring an end to floor dealings, though no one knows quite when - but a new market segment for small companies is being created which will have much stiffer listing and reporting requirements than the main exchange.

Both initiatives are being driven by Deutsche Börse, which runs the Frankfurt securities markets, including Deutsche Terminbörse (DTB), the futures and options exchanges. Together, they promise to usher in a new era for the market.

At the end of this year, a new electronic trading system called Xetra (exchange electronic trading) will

replace Ibis, the electronic dealing network for institutions. Around the end of 1996, Xetra will be in full operation, handling wholesale and retail business in all securities quoted on the exchange. By that time, the Neuer Markt (new market), designed to attract dynamic young companies, especially those with a high-technology bias, will be under way.

Opening next month, it will build up its operations gradually, aiming to have up to 20 listings in the first year or so. Eventually, the Neuer Markt intends to link with similar ventures in Paris, Brussels and Amsterdam.

Both Xetra and the Neuer Markt show the determination with which the Frankfurt exchange - dominating trading on Germany's bourses, ahead of Düsseldorf, Munich and five others - is pursuing its ambitions. Not only is it keen to establish a technological lead over rival international exchanges, especially ahead of monetary union which will eliminate the D-Mark and create a new

competitive environment among European markets. But it is also aware that too few newer companies are being listed on the bourse to offset the dominance of the big blue chips.

Costing up to DM150m, Xetra - known as Zeus in its development stage - is aimed at making the market more transparent and liquid and thus speedier, more efficient and cost-effective. Not only will this benefit existing market participants and investors, but it should also improve access for remote users of the exchange - both in and outside Germany.

Xetra will make Deutsche Börse internationally more competitive because it will bridge geography and time zones." Mr Werner Seifert, chief executive of the stock exchange company, says. He adds that no other exchange had so consistently used the possibilities of remote membership. It has computerised access points across Europe and Xetra would enable it to develop this advantage.

However, he recognises

that technology alone was not enough to overcome the German wariness of shares. "Because of the lack of a proper equity culture, the market is not as sophisticated as it could be," he comments.

Although last November's DM200m new issue by Deutsche Telekom heightened domestic interest in the stock market, that technology alone was not enough to overcome the German wariness of shares. "Because of the lack of a proper equity culture, the market is not as sophisticated as it could be," he comments.

Deutsche Börse has already lined up several technology-oriented companies for early listing on this growth market. Bertrand, an engineering design company serving the motor industry, will be the first listing (it is already quoted on Frankfurt's junior market), followed by Mobilicom, a mobile telecommunications operation. Also planning to come to the market is Ultimac Software, a computer and software security specialist.

Many bankers and brokers, in Germany and abroad, see a clear a need for the Neuer Markt, though it will take time to show its worth. Several German companies have recently obtained listings on the Nas-

daq, the US market specialising in high-tech companies, in the absence of an alternative in Germany. In addition, Easdaq, the competing pan-European market, recently began operations in Brussels along the lines of Nasdaq.

However, Mr Rete Francioni, a director of Deutsche Börse, notes that at least half the turnover in these stocks - including Ojaen, a biotechnology company quoted on Nasdaq last year - is now carried out in Germany. He sees this as a favourable omen for the Neuer Markt.

These included Deutsche Bank, Dresdner Bank, BHF-Bank, Bayerische Vereinsbank in Germany, ABN Amro of the Netherlands and Banque Paribas of France. Other banks are

expected to take part in the Neuer Markt as it develops. Mr Fenners says.

Both he and Mr Francioni believe the Neuer Markt and Euro.NM will have advantages over Easdaq. The Neuer Markt would be rooted in a domestic market, as would its partner exchanges, which would benefit liquidity and contact with investors.

Altogether, says Mr Seifert, the first 20 new issue candidates for the Neuer Markt have a total turnover of around DM1.4bn and employed 4,300 people.



The DM200m new issue by Deutsche Telekom heightened domestic interest in the stock market

Frankfurt share volume 1996 (000)

January	900,831
February	780,788
March	1,375,269
April	718,105
May	618,104
June	1,372,526
July	1,371,680
August	1,321,968
September	1,453,763
October	1,461,065
November	2,752,496
December	1,327,925
January 1997	2,221,185

*Deutsche total market index

Amsterdam share volume 1996 (000)

January	634,666
February	650,334
March	612,880
April	556,045
May	588,558
June	542,178
July	572,884
August	505,130
September	538,441
October	681,416
November	623,942
December	584,459
January 1997	901,555

*Amsterdam total market index

distribute free to shareholders, and into which any proceeds from the action would flow.

The exchange initially refused to list the so-called Begemann stock, saying the state had not acknowledged the company's suit and that no new capital was being brought to the market through such a listing. But then it abruptly reversed its decision:

EOE index, renamed the AEX index from January to reflect the belated marriage of its parents.

The two markets created a joint executive in 1992 to coordinate planning, which brought benefits including the trading of bond futures on the stock exchange's dealing system as well as a new bond market. The Amsterdam Midcap index, which computes the value of 25 companies with share turnover just below those of the 25 in the AEX.

Stock and options chiefs have also orchestrated their responses to government initiatives affecting the securities and futures industry. A securities board now issues dealing licences and polices suspicious stock transactions made through the exchange, which does its own clearing and retains the

right to decide who should belong. But a series of insider trading cases over recent years has not touched the exchange membership.

Because of one such scandal, however, a strange new type of share is due to find its way on to the AEX board.

Begemann, an industrial investment company, is suing the exchange and the government for a total of more than Fl 1bn after an insider trading conviction against Mr Joep van den Nieuwenhuizen, its former chairman, was overturned on appeal.

At the centre of the case is the damage inflicted on Begemann's share price during the proceedings. To shield its shares from further volatility while the civil suit is in progress, the company is creating a separate class of share which it will

AMSTERDAM • by Gordon Cramb

Two pioneers are extending the frontiers

The new Amsterdam Exchanges is aiming to have a listing of its own

When Amsterdam Exchanges (AEX) came into being on January 1, 1997, it brought together the world's oldest stock exchange and Europe's pioneer financial derivatives market. Just seven weeks into its new life, AEX pushed the frontiers further by publishing a prospectus under which it aims to become the first monetary exchange to have a stock market listing.

The company created from the memberships of the stock exchange and the European Options Exchange is placing half its shares with Dutch pension funds

and listed companies. The move has a precedent only in Sweden, where the stock exchange and OM options and futures market, its biggest shareholder, are quoted but remain separate entities.

According to Mr George Möller, the former EOE chief and now AEX chairman, the Stockholm experience was not taken as a model in forming the new structure. "The only thing Swedish about this is the umlaut in my name - the rest is pure Dutch," he says.

The task was to unite two membership associations, putting assets and activities into one limited company. It was undertaken as a merger of equals, each putting up half the Fl 100m paid-in capital. The associations live on in mutated form - allowing the new company to distance itself from outstanding

claims against its predecessors - and will own all the A shares in the enterprise. On offer to other institutions is a class of B shares, of equal size and nominal value, and member firms may trade in those, too.

This closed market will remain in force for five years, with exchange members receiving income through a cumulative preference dividend topped up by profit-sharing certificates.

From 2002, the shares can be traded more widely, and at that point AEX intends to list itself on its own board. "We want to establish a business with a track record," says Mr Möller.

Even after then, however, any one shareholder will be restricted to a maximum 10 per cent holding in AEX. The stipulation sits uneasily with past declarations by the

stock exchange that it opposes protective share constructions. To this end, Mr Möller says that if the exchange fell into different hands, official permission might have to be sought anew in The Hague for it to conduct business on behalf of the public. "We have an exchange, a licence, and at the end of the day something very vital to the Dutch economy... Our case, I feel is special."

The demutualisation of the exchanges came into effect at a time when they have been enjoying record equity prices and strong volumes. Turnover in shares and bonds approached Fl 2,000bn last year, up from Fl 1,382bn the year before, and quadruple the level of five years ago. If volumes are to remain rising, new listings are needed, the exchange

says. A New Market Amsterdam is being created to attract companies in earlier stages of development.

Amsterdam Exchanges faces the challenge of securing earnings for itself and its new shareholders while aiming to compete as cost leader in a European capital market, which, if economic and monetary union takes effect on schedule less than two years away, will be increasingly borderless. Moreover, it lacks the underpinning of a big home market.

As a single organisation, officials argue, it will be able more easily to develop product combinations in order to boost trading volumes. By this logic, these would be domestic bond or equity derivative contracts such as those available on their best-known joint creation, the three-year-old Amsterdam

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4 EUROPEAN STOCK EXCHANGES

SWITZERLAND • by William Hall

EBS doubters shaken off

The Elektronische Börse Schweiz has increased efficiency on the stock exchange

The Swiss stock exchange finally seems to have shaken off the doubters who have scorned its efforts to introduce a fully automated electronic stock exchange covering everything from order input, to execution and settlement of transactions. A typical transaction now takes less than two seconds from start to finish.

The financial newspapers are no longer filled with stories of embarrassing trading halts of Swiss blue chips as inexperienced traders learned how to use the state-of-the-art system when trading in Swiss equities first began. The initial fall in trading volumes in the aftermath of last August's launch has been replaced by a steady rise in activity as traders become more comfortable with the reliability of the system.

In January, turnover in Swiss equities of SF156.2bn was 18 per cent up on the previous year, and over one and a half times more than in January 1995. The pick-up in trading volume of foreign shares, which went electronic in December 1995, has been even more dramatic with a more than 50 per cent increase in 1996 annual volume, to SF31.6bn. The only area which has not experienced a pick-up in volume is bonds, where electronic trading started in August 1995. The Elektronische Börse Schweiz (EBS), to give the project its correct name, certainly took far longer to complete than expected and cost far more than anticipated. But it has met its objectives of bringing increased efficiency and greater transparency to a Swiss stock market which only seven years ago consisted of seven separate regional bourses and an independent Swiss Options and Financial Futures Exchange (Sofex).

"Initial fears that traders would bypass the system

and trade outside the market have proved groundless," says Mr Otto Nägeli, 47, the former chief executive of Sofex, who now runs the Swiss stock exchange's market division. More than 95 per cent of the share transactions have taken place on the exchange and 65 per cent of the warrant transactions. Bond trading has never been a big item which explains why only 38 per cent of transactions went over the exchange.

The figures prove that the market is liquid and professional, says Mr Nägeli. A trader will only deal on the market if he is certain that the trade he does is better than that which can be achieved outside the market. The figures prove that the best trades are on the exchange. The size of dealing spreads has narrowed and he is convinced that the costs of dealing will decline.

The Swiss financial community has probably invested more than SF500m in the EBS project which is designed to give Switzerland a competitive edge over rival European stock exchanges.

The integration of Sofex into the main stock exchange has improved the possibility for the cross fertilisation of new trading products and helped the Swiss authorities to regulate the market professionally.

Switzerland has been slower than many European countries in modernising its financial regulations. The Federal Banking Commission, a relatively thinly staffed bank regulator in Berne, is about to be renamed the Federal Bank-

Zurich share volume 1996 (000)*

January	55,400
February	58,435
March	64,983
April	58,695
May	51,143
June	56,232
July	62,319
August	41,004
September	39,072
October	49,228
November	48,520
December	42,273
January 1997	65,271

* Datastream total market index



Otto Nägeli: the market is liquid and professional

and Bourse Commission will take over from the Cantonal governments the job of supervising the securities industry. Its task has been made much easier by a single electronic stock exchange whose transparency means that it is much harder for mistakes and misdeeds to go undetected. A new stock exchange act is being implemented to back up the stock exchange's self-regulatory role.

While the successful launch of Switzerland's electronic stock exchange has given Switzerland a temporary competitive advantage, it still faces an uncertain longer-term future. In terms of market capitalisation of listed securities, it ranks 11th in the world and in terms of equity turnover it ranks eighth. In terms of foreign equity turnover it is the fourth busiest exchange and is even more important in foreign bonds and warrants.

However, Switzerland remains outside the European Union and many of the country's best-known blue chips such as Nestlé, Novartis, Roche and ABB could be listed anywhere in the world. Mr Marcel Ospel, chief executive of Swiss Bank Corporation, says that the key question facing the Swiss exchange concerns its future role in an increasingly international environment dominated by a few big institutional investors. Should it, for example, make more of an effort to permit non-members to have access to the Swiss market?

The Swiss exchange is betting on the world's stock exchanges making the vision of trading with integrated clearing systems across time zones a step closer. This fits in with Mr Nägeli's vision of the future. An exchange is nothing more than a geographical access point needed for various reasons such as supervisory and listing requirements. "Sometimes I have the impression that national stock exchanges are regarded like national airlines. A country needs one to prove its autonomy. That is no longer valid. There are no boundaries any more except in our minds," he says.

Over the long term these access points in places such as London, Paris, Frankfurt and Zurich, could be managed by either individual exchanges or some kind of supranational exchange, according to Mr Nägeli.

The Swiss exchange is betting on the world's stock

markets becoming more electronic. It believes that it is at the leading edge of automation and this is borne out by the keenness of other exchanges to form alliances with the Swiss exchange. In September 1996, the Chicago Board Options Exchange (CBOE), the world's largest options exchange, the Options Clearing Corporation (OCC), the biggest clearing house, formed a strategic alliance with the Swiss to develop, build and maintain jointly a common platform for trading and clearing standardised derivatives.

The OCC is licensing its margining software for use by Sofex and the CBOE has been licensed to use Sofex trading software. Last December, the Swiss exchange joined forces with the Deutsche Börse to integrate the two trading and clearing systems of their derivatives exchanges - the Deutsche Terminbörse and Sofex. The aim is to reduce costs and speed up new product launches.

The German and Swiss exchanges which are now working together with the Chicago exchanges want to become the global leaders in the development and operation of trading and clearing systems for derivative products. The planned implementation of identical system standards brings the vision of trading with integrated clearing systems across time zones a step closer.

This fits in with Mr Nägeli's vision of the future. An exchange is nothing more than a geographical access point needed for various reasons such as supervisory and listing requirements. "Sometimes I have the impression that national stock exchanges are regarded like national airlines. A country needs one to prove its autonomy. That is no longer valid. There are no boundaries any more except in our minds," he says.

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Five-year Contracts are likely to trigger the next battle for market share

Much has happened since the spring of 1996, when Liffe fired the opening salvo of the battle for supremacy of European derivatives trading. Old alliances were dissolved, new ones initiated; old futures and options contracts were modified, new ones were created, and dead ones could yet be resurrected.

By announcing that all its short-term interest rate contracts on currencies participating in European economic and monetary union would be settled in euros from early 1999, the London International Financial Futures and Options Exchange highlighted the urgency of adapting exchanges' development strategies to a single currency environment.

With the advent of the single currency threatening to shrink the total size of the listed derivatives market, analysts believe some of Europe's smaller exchanges are destined to disappear, or at least be relegated to minor roles.

Behind the numerous decisions made in recent months lies the recognition that by boosting trading volumes in the run-up to Emu, each exchange would increase its chances of surviving the expected consolidation of the industry.

Three ways of achieving this have emerged:

■ The first was to forge links with other markets. Liffe and Matif have followed this route. In November, they simultaneously announced alliances with the world's largest exchanges - the Chicago Board of Trade and the Chicago Mercantile Exchange - allowing US traders direct access to some of Europe's most liquid derivatives contracts.

■ The second move was to change contract specifications to make them compatible with Emu. But since all protagonists reacted swiftly to Liffe's advance, this argument ceased to offer any competitive advantage.

■ The last, but most significant, strategy relies on creating new products with the aim of covering all maturities on the yield curve. It has been adopted by the German exchange Deutsche Terminbörse (DTB), in addition to Liffe and Matif.

Liffe could be the first to make a move on this front. In September it announced a new contract on one-month interest rates on the D-Mark. This was followed only days later by a similar announcement from DTB, which then decided to change the specifications of its futures on three-month D-Mark rates.

Surprisingly, in spite of its relatively small size - less than 50 per cent of Liffe's volumes in 1996 - DTB has the most comprehensive interest rate product range. And it is set to accentuate this lead: on March 7, when

it launches its new Schatz future on two-year German debt, it will have products covering the entire yield curve, from one-month to 10 years, on the currency most likely to be the anchor of Emu: the D-Mark.

It is too early to predict the new product's chances of success, but the German exchange's lead in intermediate maturities is well established - it currently lists the only liquid future on five-year bonds.

However, according to market observers, this maturity is likely to be the most contested sector in coming months. Both Liffe and Matif are believed to be eyeing five-year products.

In early 1993, Liffe launched a future on five-year German bonds, but had to abandon it in September 1994 due to insufficient trading activity. But traders say Liffe could be planning a repeat of this experience. Officials at the exchange would not discuss its plans, but confirmed that Liffe was "looking at a whole range of foreign contracts".

Liffe and DTB, which offer equity products, can expect to benefit from this situation. On DTB, for example, options on the Dax index are the single most heavily traded product.

Matif is less fortunate in this respect. Although it lists futures on the CAC stock market index, options on this index and on individual shares are traded on another exchange - Monex. But Matif has recently taken steps to remedy this situation. At the end of January it announced the creation of a common subsidiary with the Paris bourse whose responsibilities would include developing equity products, as well as managing the benchmark CAC index.

THE NORDIC BOURSES • by Hugh Carnegy

Speculation about mergers

Interest in the four centres in a pan-Nordic exchange has varied

Merger talk on the Nordic bourses concerns more than rumours about which two listed companies may be about to get together. For the past several months the stock exchanges themselves have been the subject of merger speculation.

For most of the decade, the chief story in Copenhagen, Helsinki, Oslo and Stockholm has been of the strong gains made by the respective stock markets, fuelled by deregulation that unleashed a wave of international investment in Nordic equities.

Now an increasingly hot topic is whether trading should be given an even greater impetus by combining markets.

Mr Lars Johansen, managing director of the Copenhagen stock exchange, has been a strong advocate of a merger of all four main regional bourses to form a pan-Nordic stock exchange.

"It would be more attractive for both local and foreign investors, it would to a greater degree attract foreign members; it would be an alternative to other European markets for non-Nordic companies when they consider a listing outside their own areas," he wrote recently.

Some discussions have been held on the issue. Although even the biggest of the four - the Stockholm stock exchange - is quite small in global terms, together the markets would rank highly in Europe, giving them the critical mass to ward off competition from other centres and attract business from elsewhere.

Their combined market capitalisation in mid-February was US\$400bn, which would put a pan-Nordic bourse in the top five in Europe. In turnover, the generally highly liquid Nordics would rank third.

The Nordic markets have also been in the forefront of developing electronic trading and settlement systems. Linking them into a single electronic system with common rules should not pose any great problems.

But a pan-Nordic merger does not seem to be about to happen. There has been uneven interest in the idea between the four different centres. Not the least significant factor is the relative indifference of Stockholm, where the size of the market makes the argument for a merger less compelling. This is matched by a worry among the other three that Stockholm would dominate.

There are also structural obstacles concerning ownership and control: for example, the Stockholm stock

exchange is a listed company in its own right. The Copenhagen and Helsinki markets are for-profit corporations, but not publicly listed, while Oslo still has a traditional membership-based structure.

But perhaps the most important obstacle is the relationship between the Stockholm stock exchange and the OM options exchange. The OM Group, founded by entrepreneur Olaf Steinhamar, has become a dominant force in options and derivatives trading and is the stock exchange's biggest shareholder with a 21 per cent stake. It is interested in a local merger with the Stockholm stock exchange.

OM and the stock exchange have been discussing this since late last year. A merger would emphatically underpin Stockholm's position as the most important centre for securities trading in the region. It would also mark a decisive step towards OM's ambition to become a "universal market place" for Nordic securities.

At the time of writing, a merger deal appeared to be held up at least in part by concerns that a merged exchange would be dominated by the interests of the Wallenberg family industrial empire. Wallenberg-controlled companies already make up half of the market capitalisation of the stock exchange; OM's biggest shareholder, meanwhile, is Investor, the main Wallenberg investment vehicle.

Through electronic links to OM's exchange in Stockholm and its OMLX exchange in London, Sweden and Norwegian equity derivatives can now be traded on a common system from the three centres. Previously, the only means of trading equity derivatives in Oslo was via the telephone. OM has a similar link with Helsinki in the works.

Stockholm: share volume 1996 (000)*

January	373,513
February	397,548
March	418,298
April	479,067
May	362,757
June	270,829
July	238,029
August	293,458
September	404,985
October	459,985
November	433,245
December	396,138
January 1997	473,787

* Datastream total market index

But if the merger goes ahead, the universal Nordic marketplace OM will in mind would be a big step closer to reality.

OM is by no means leaving the other regional markets out of its plans. But what it has in mind is a network of Nordic exchanges, rather than one Nordic exchange in which OM would be the key participant.

This scenario is to some extent already taking shape. OM in mid-February opened a joint market place for equity derivatives with the Oslo stock exchange, which it said was the first real-time electronic link between independent exchanges.

Through electronic links to OM's exchange in Stockholm and its OMLX exchange in London, Sweden and Norwegian equity derivatives can now be traded on a common system from the three centres. Previously, the only means of trading equity derivatives in Oslo was via the telephone. OM has a similar link with Helsinki in the works.

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FINANCIAL TIMES ATHENS

Scandal tighter

The financial scandals forced the government to implement reforms.

WARSAW • by Arthur

An env reputat

After being reopened in 1991, the exchange now has 80 quoted stocks.

Financial Times Publishing, Maple House, 149 Tottenham Court Road, London W1P 9LL, UK

MILAN • by Paul Betts

Year of reckoning for the ugly caterpillar

The future of the bourse depends on the success of financial market reforms

For the Italian stock market, 1997 will be the year of reckoning. "It will be the year that will shape the future of our bourse," says Mr Benito Boschetto, the chief executive of the Italian Stock Exchange Council. "The year in which we will see whether we can transform the ugly caterpillar into a beautiful butterfly."

So far, the early signs are encouraging. The Milan stock market has had a buoyant January with the blue-chip Mib-30 index rallying by around 17 per cent after rising by only 11 per cent in 1996 and falling by 2 per cent the year before. The daily volume of transactions has doubled from an average of L20bn last year to around

L1.500bn in January with some daily peaks of more than L2,000bn.

Italians, notorious government fixed income investors, appear to be rediscovering equities. The decline in interest rates and bond yields has encouraged them to take back into shares. The net flow of money into equity funds has been rising since December after 22 months of negative flows. And despite a correction in recent weeks and continued worries over Italy's participation in the first phase of European monetary union, the mood remains bullish.

However, the longer term health of the Italian market is likely to depend on the success or failure this year of a broad and ambitious reform of the stock exchange and Italy's financial markets in general. It includes the privatisation of the Stock Exchange Council into a public limited company with its own self-regulatory pow-

ers. If all goes according to plan, the bourse should be privatised by the middle of this year.

"We are undergoing a phase of deep, radical change," explained Mr Boschetto. But the stock exchange's chief executive also warned: "Either we prepare ourselves to compete in a liberalised international market environment or we will be out of the game."

But it will not be easy, acknowledged Mr Boschetto. Italians have traditionally been suspicious about the bourse for several historical reasons. For a start, the country's largely publicly-owned banking system has been in the past hostile to the stock market. Fiscal policy until recently was heavily slanted in favour of bank lending. In turn, this created the paradoxical situation of a country with the highest savings rate in Europe but with the most indebted productive system.

With changes in the law, the strong fiscal incentives to borrow have disappeared. This is now expected to stimulate the capital risk market.

The old political parties were also opposed to the bourse. For the old Christian Democrats the market was a place of sin; for the old Communist Party it represented the unacceptable face of capitalism. Again political attitudes towards the stock market are beginning to change. Most of the parties that have emerged since the political shake-out provoked by the "Tangentopoli" (or "Bribesville") scandals earlier this decade have shown greater understanding and sympathy towards the role a modernised, transparent equity market could play to support industrial development and wealth creation in Italy.

Until a few months ago, most small Italian investors regarded the stock market as an exclusive club for a few big hitters: the Agnells, the

Milan share volume 1996 (000)	
January	4,126,353
February	3,612,795
March	3,982,154
April	3,987,616
May	3,898,091
June	3,193,639
July	3,019,897
August	1,926,996
September	3,625,190
October	3,059,555
November	4,315,288
December	3,024,690
January 1997	3,153,044

• Datastream total market index

likely at some stage to seek a stock market listing. "This is the basis for the development of our stock market," he explained. "It won't lead to an immediate leap in capitalisation but it should help develop the market as well as the country's overall industrial development".

Whatever happens, he added, these companies, which make up what has become known as the Italian industrial model, will go to the market; if not in Italy, elsewhere as some have already done.

OTHER BOURSES • by Michael Morgan

Reforms boost Vienna

And for some analysts, the Lisbon stock exchange came of age in 1996

The Vienna stock exchange, one of the oldest in the world established in 1771, has been a hive of activity as the bourse authorities prepare for the 21st century.

Last June, a computer-driven trading system, the Electronic Quote and Order-driven System, or EQOS, came on stream, allowing dealers to communicate directly and to place buy and sell orders into the system, with transactions being concluded automatically.

Some 26 of the most liquid shares are traded electronically and plans are in place to include all 1,900 listed securities, including bonds, by the end of the year.

Under the new regime, banks undertake to make markets in the most liquid shares and each share has at least three market-makers. Trading hours have been extended and the limit for price fluctuations increased from 10 to 15 per cent.

Last July, the market authorities also abolished long popular anonymous securities accounts; in recent years they had provided an escape route for investors who preferred to avoid a 25 per cent withholding tax on yields, interest and dividends. The abolition had two purposes: to bring domestic regulations in line with those in other European markets and to prevent insider dealing and money laundering.

Reforms continue apace. Mr Manfred Heider, the exchange's deputy secretary-general, says there are plans for a new market, listing small and medium-size enterprises. The new market, called Fit - standing for Finance in Time - is scheduled to start trading during the second quarter of this year with between five and 10 listings.

Compared with its neighbours, Vienna put in a dull performance last year, rising 26 per cent in local currency terms, compared with the 41 per cent advance registered by the FT/S&P Europe ex-UK index.

For some analysts, 1996 was the year that Lisbon came of age as the 2.3bn privatisation programme brought an influx of foreign interest. The sale of Portugal Telecom, Cimpor, the cement group, and Telepol, Portugal's dominant mobile phone operator, were the main stories of the year, helping the market index up 54 per cent.

The exchange has been actively trying to market itself to foreign investors in recent years. Mr Jose Cardoso de Matos, the exchange's marketing director, says that the bourse's efforts began three years ago with a roadshow in London. Subsequent shows have visited Paris and Frankfurt, and last year New York and Boston. Next month, the cycle comes full turn with a roadshow in London.

Local investors, meanwhile, have also been encouraged into the market by the introduction of a cap on the commission charged on small retail trades. Dis-

counts have also been offered to domestic retail investors buying the privatisation issues.

The privatisation trend looks likely to continue this year with the government expecting to generate proceeds of \$2.4bn from further state sell-offs. The biggest of them to date, the expected sale of a 25 per cent tranche of Electricidade de Portugal, the electricity utility, is planned for the second quarter of 1997.

The market itself has made an encouraging start to 1997 rising about 18 per cent in local terms and the rise has been accompanied by a sharp increase in average daily turnover from around \$25m a day to nearly \$50m.

Madrid was a positive performer last year with a 10 per cent rise in December alone taking the year's advance to 49 per cent.

One fiscal incentive, credited with providing the market with a mid-year boost, was a sharp reduction in capital gains tax from 56 per cent to 20 per cent on assets held for two years or more.

Liquidity, however, was a key theme in Madrid last year and it remains so in 1997. Miss Alexandra Ferrone at James Capel in London says that mutual funds enjoyed a boom year as returns on equity funds outstripped those on money market funds by three to one. A succession of successful small cap IPOs also fuelled interest. This month's sell-off of Telefonica is expected to be followed in the second quarter with the sale of the government's remaining 10.5 per cent

Vienna share volume 1996 (000)

January	18,638
February	12,791
March	12,547
April	14,868
May	12,847
June	11,532
July	14,059
August	9,523
September	11,122
October	12,897
November	13,366
December	16,221
January 1997	21,880

• Datastream total market index

stake in Repsol, the energy group. The second half of the year should bring another tranche of Endesa to the market as the government reduces its holding in the energy group, from 66 per cent to around 46 per cent.

Istanbul left it until the end of last year to come alive. But then, a combination of an increasingly stable political environment and sustained falls in inflation and interest rates spurred the market sharply higher in January. Equities also benefited from a new tax on bond yields and an unexpected, but nonetheless welcome, ruling in the constitutional court last month which effectively opened the way for the privatisation of Turk Telekom, the state-owned telecom company. The government hopes to receive at least \$3bn by selling up to 39 per cent of the company this year. That sale and others of quoted state companies could substantially boost the market's capitalisation, currently around \$44bn.

In January alone, the market surged 50 per cent in dollar terms as domestic and foreign investors scrambled for stock, pushing daily turnover up to \$850m on some days.

"Business that is permitted in one country is prohibited

investments and the development of pension funds are providing a good foundation for reform of the country's financial system, there are, as always in Italy, some significant political hurdles to overcome. The privatisation of the bourse could still be undermined by power struggles with the existing banking and financial system as well as the political parties seeking to protect their traditional vested interests.

de Benedetti, the Mediocorp of this world. They also considered the bourse as a highly risky and shady institution: a place to gamble rather than invest savings. The string of big financial scandals of the past few years from the collapse of the late Raul Gardini's empire to the more recent boardroom and financial turbulence at Olivetti have done little to enthuse small investors.

However, efforts are under way to improve corporate governance in Italy and create a more transparent market. "Corporate governance is fundamental if we are to have a healthy market," insisted Mr Boschetto, who believes the new corporate governance rules being introduced will help bring about a change in attitudes inside Italian management and also among investors.

Although the January stock market rally, the growth in mutual fund

the first countries to join the new European monetary union and the single currency.

The centre-left government has staked its credibility on early entry into monetary union and Mr Romano Prodi, the prime minister, said he would resign if Italy failed. However, there have been growing doubts whether Italy will in the end make it. This has created tensions on the market which fears failure could provoke a renewed political crisis and a halt to the current rally.

But Mr Boschetto remains on the whole optimistic. "We are a country in transition although the old regime is not dead and the new one has yet to emerge. The climate, however, has changed. We are moving away from a public-monopolistic system to an open and private one." He stressed there are more significant issues involves Europe and the Italian government's commitment to be among

that firms are now beginning to review their European corporate structure. The ISD allows groups with passports to operate either cross-border or through simple branches.

Mr Kenmire believes most UK-based firms now perceive London as their "euro-hub" around which they will develop a network of branches. SFA has issued licences for 33 branches since the directive came in.

Mr Andrew Winckler, chief executive of the Securities and Investments Board (SIB), the UK's premier investment services supervisor, also sees "the stirrings of good things".

A recent meeting of heads of European securities commissions and regulators agreed that what was now needed was to develop the practical operational policies which would support the principles of the directive.

Most UK investment houses which have previously done business outside the UK are continuing to struggle to function in Europe despite the absence even of agreement on a definition of an investment service. (In the UK, life insurance companies are closely integrated into the investment community but on the Continent their business will mostly be separately regulated by specific life directives.)

Both the main SROs involved - SFA and Imro - have issued a respectable number of the so-called "passports" which certify a firm as fit and proper to conduct pan-European business. Imro's Chris Hibben says "there has not been a Gadaffi rush"; nevertheless around 220 member firms, out of the possible 400 which might have been expected to be interested, have passports. At SFA the number is about 400.

One encouraging sign, according to David Kenmire, SFA's director of authorisation and business conduct, is that firms are now beginning to review their European corporate structure. The ISD allows groups with passports to operate either cross-border or through simple branches.

In a separate initiative SIB and its French counterpart the Commission des Operations de Bourse (COB), are working together on common principles of market integrity. While markets must be free to be innovative they must also be transparent, fair and free from abuse. COB has already held one workshop on the subject and, at a meeting in mid February, SIB agreed to join the French in a second two-stage exercise.

Not only will this provide a formal underpinning to relations between the two authorities, it will also cement the personal informal contacts which recent crises such as Barings, Jardine Fleming and Morgan Grenfell have exposed as essential.

RUSSIA • by John Thornhill

Strange beast is eye-catching

Created as a means of shuffling paper, the market has been built back to front

Russia's stock market, barely four years old, has already experienced cycles of booms and busts uncommon in markets many years its senior.

From its spontaneous creation in the aftermath of Russia's mass privatisation drive in 1993, the stock market soared the following year with the shares of individual companies rising by as much as 30 times. But the market entered the doldrums in 1995 as a series of scandals erupted and investors feared the return of revanchist Communists to power.

When it became clear that President Boris Yeltsin would be re-elected, the market boomed again climbing 155 per cent in US dollar terms over the course of 1996. It has continued its strong run this year rising a further 50 per cent making Russia one of the hottest investment markets in the world with a total market value of more than \$50bn.

Despite this eye-catching history, the Russian stock market remains a strange beast. Originally created as a means of shuffling paper rather than raising capital, the market has effectively been built back to front. A strong secondary market has been created before a real primary market has

emerged. That strange evolution has produced many distinctive features. For a start, it has meant that the stock market lacks even the most basic infrastructure. There are almost no recognisable stock exchanges with any listing requirements. Only a handful of Russia's 110,000 privatised companies produce any meaningful financial information. And share registers are ramshackle and often held by the companies themselves. The trading of shares can also be a haphazard process with opaque pricing, wide spreads, and big counter-party risks.

Russia's Federal Securities Commission, headed by Mr Dmitry Vasilev, has been making great strides in rectifying many of these deficiencies but it will be a long and arduous process.

With the passing of two laws on joint stock companies and the securities market, the legislative framework is in place to create an orderly and transparent market. But it will take considerable political will to enforce this legislation.

All this means the stock market will offer a baffling array of wonderful opportunities and frightening risks for years to come. In the absence of clear and intelligible financial information, and with still uncertain political and economic times ahead, the market is likely to be subject to sudden swings of mood and price movements. In short, it will be a very Russian market.

New investment opportunities are emerging from an expanding financial market

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COMPANIES AND FINANCE: EUROPE

ABN Amro reveals F1 4bn reserves

By Gordon Cramb in Amsterdam and George Graham in London

ABN Amro, the Netherlands' biggest bank, yesterday produced a 26.3 per cent jump in 1996 net profits to F1 3.3bn (\$1.7bn), and unveiled F1 4bn of previously hidden reserves, half of which will boost shareholder funds.

The group is splitting its shares into four for every one held, and is buying back about 1 per cent of its equity to offer as American depositary receipts as part of its listing in New York in May.

The dividend, meanwhile, rises

from F1 3.60 a share to F1 4.20, paid from earnings per share of F1 9.26, against F1 7.69.

Mr Jan Kalff, chairman, said in Amsterdam that uncertainties in world currency and equity markets meant it could not pledge to sustain that level of earnings this year, let alone achieve further growth.

The remark echoed the caution he expressed at the same stage last year, however, and he added: "That does not mean I am expecting a decrease."

Total assets had risen 8.9 per cent at the end of December, to F1 595.3bn; within which its loan

was up 12.3 per cent to F1 338.5bn.

Net interest revenue grew 12.6 per cent to F1 11.53bn, as a slight narrowing in lending margins was offset by volume growth, particularly in the US.

Mr Kalff said that although ABN Amro's loans had grown rapidly, much of its portfolio was in low-risk assets such as mortgages in the Netherlands and the US. In the retail banking market, growth had been fastest in the US and Brazil.

Loan loss provisions were maintained at F1 1.4bn, in spite of the increase in overall lending.

The bank's general contingencies

provision, revealed for the first time at F1 4.02bn, is to be divided from this year into a F1 2bn open fund to cover general banking risks, with the slightly larger remainder being transferred to general reserves.

This allows both amounts to be treated as core capital under the rules of the Bank for International Settlements in Basle. The shift lifts its BIS tier one ratio to 7.21 per cent of risk weighted assets from 6.18 per cent at the end of 1996 and 6.51 per cent a year earlier.

The bank set aside F1 340m to cover costs incurred in the planned

switch to the European single currency and computer adjustments required by the year 2000. It estimates the total outlay at F1 500m.

Operating expenses, up 18.2 per cent to F1 12.93bn, were influenced by an increased head count and higher bonus payments. Revenues rose 17.8 per cent to F1 19.09bn.

Earnings include those of MeesPierson, the Amsterdam merchant bank sold since the year end to Fortis, the Belgian-Dutch financial group. But MeesPierson was deconsolidated from the 1996 balance sheet, and sale proceeds were not yet booked.

Paribas unit to buy back shares

By Andrew Jack in Paris

Navigation Mixte, the holding company taken over last year by Paribas, the French banking group, is to buy back and cancel its own shares in an operation to return much of its FFr3.8bn (\$1.5bn) in cash to shareholders.

It will pay out FFr300m to the small group of investors who did not agree to exchange their share in Paribas' takeover, and FFr6.6bn to Paribas. It will retain nearly FFr2bn for continued investment.

The action is the latest step in the dismantling of the group, which started with Paribas engineering a boardroom coup during the annual general meeting in summer 1995, and subsequently taking it over.

Mr André Lévy-Lang, Paribas chairman, commented that tax and other legal complications made share buy-backs difficult in France. He hoped that discussions on reforms to the country's corporate legislation would make the process easier.

The news came yesterday as Paribas unveiled 1996 net income of FFr4.35bn, compared with losses in 1995 of FFr4.6bn, incurred after provisions against property and other activities.

Total revenues from its business divisions rose 22 per cent to FFr13.8bn, while general expenses rose from FFr9bn to FFr10.2bn, and provisions from FFr509m to FFr585m.

Mr Lévy-Lang pointed out: "We have reached our objective for 1996 of a 10 per cent return on equity."

Mr Lévy-Lang said Paribas had no interest in "Franco-French alliances". But in international markets, it would look for "acquisitions and possible partners".

ABB disappoints with 6.2% decline

By William Hall in Zurich

The shares of ABB, the international electrical engineering group, fell sharply yesterday after the company reported a 6.2 per cent fall in 1996 net income to \$1.23bn and warned there might be no increase in 1997 earnings.

The decline follows two years of spectacular growth in which group profits doubled from a plateau of about \$600m in the early 1990s.

The previous year's figures were inflated by a \$250m extraordinary gain from the merger of ABB's transportation activities into a joint venture with Daimler-Benz. Nevertheless, analysts had been expecting the group to report roughly unchanged earnings.

Mr Göran Lindahl, who took over as chief executive in January, remained upbeat despite the stock market's savage reaction to his first set of results since he took over from Mr Percy Barnevik. He stressed that, after adjusting for one-off gains,



Göran Lindahl yesterday: upbeat despite stock market's savage reaction

the company had increased its net income by 16 per cent in a year of slowdown.

ABB's bearer shares fell more than 5 per cent to SF11.717 yesterday. Aside from the disappointing earnings, analysts focused on the sharp drop in margins in the power generation business, the sluggishness of the order book, and the increased use

of working capital.

The company's efforts to distance itself from attacks by environmentalists for its involvement in Malaysia's controversial \$6bn Bakun dam project also received a setback yesterday when the company announced that Mr Stephan Schmidheiny, 49, a leading environmentalist and the biggest shareholder

\$3.026bn were roughly unchanged on 1995. Operating earnings fell 39 per cent to \$561m and margins slipped from 8.9 to 5.8 per cent.

In power transmission and distribution, earnings rose 13 per cent to \$765m and margins improved slightly to 8.5 per cent. In industrial and building systems, earnings rose 15 per cent to \$1.26bn.

In Adtranz Transportation, the Daimler-Benz joint venture, earnings fell from \$207m to \$81m. The contribution from financial services grew 25.6 per cent to \$323m.

Mr Lindahl said that there had been "intense price pressure" in power generation.

ABB's workforce increased by over 5,000 to 214,894 last year, sales rose by 2 per cent to \$34.5bn and orders were roughly unchanged at \$36.4bn. The group's return on equity slipped from 28.4 per cent to 22.2 per cent.

After adjusting for the transfer of ABB's transportation business, the group's operating earnings of

strong demand during a harsh winter and an increased client base pushed up consolidated net profit last year at Gas Natural, Spain's dominant gas importer and distributor, by 35 per cent to Pta45.4bn (\$338m). The company said average consumer demand for gas had risen 6 per cent, and that it had added 200,000 new clients to its distribution network. A total of 30,000 of these were served by its subsidiary in Argentina, raising its total customer base to 3.6m at the end of last year.

Gas Natural invested Pta145bn last year, 38 per cent up on 1995, and concentrated its investment on the Europe-North Africa gas pipeline which links the continents under the Strait of Gibraltar.

Tom Burns, Madrid

Bank Austria in stake sale

Bank Austria, the country's biggest bank, yesterday agreed to sell its 56 per cent stake in Girocredit to First Austrian Savings Bank, in deal which creates an institution with assets of Sch660bn (\$65.5bn).

The transaction is a result of the takeover of Creditanstalt by Bank Austria last month. According to a report in a Vienna newspaper, First Austrian, the fourth-largest bank, will pay Sch400m a share for Girocredit, or a total of Sch3.4bn, to raise its stake from 27 per cent to 33 per cent. This is the same price that Bank Austria paid three years ago when it won a bidding contest against First Austrian to take control of Girocredit.

Eric Frey, Vienna

Sol Meliá shows strong growth

Sol Meliá, the Majorca-based hotels group which was floated on Madrid's Bolsa in June, has outlined continuing strong expansion after lifting net profits 60 per cent last year to Pta4.7bn (\$32.9m). At the nine-month stage the group had reported accumulated net profit growth of 35 per cent. It said the income surge, which was ahead of forecasts, was fuelled by a recurring tax-efficient structure, introduced in the third quarter, made possible by its increasing international presence. Pre-tax profits for 1996 were up 36.6 per cent to Pta6.1bn. Tom Burns

Downturn in fibres holds back Akzo

By Jenny Luesby

A "terrible" year in the European fibres industry led Akzo Nobel, the Dutch drugs and chemicals group, to report static earnings yesterday, in spite of a F1 700m (\$368.6m) boost to sales from favourable currency movements.

Mr Cees van Lede, chairman, emphasised that each of the group's fibres divisions, including viscose, had remained in the black last year. "In Europe, where the volume of fibre sales dropped by at least 10 per cent last year, everyone else's businesses were in the red," he said.

However, Akzo's own margins in fibres fell from 4.4 per cent in 1995 to 2.4 per cent last year.

The group was cutting costs by moving its most labour-intensive fibres operations from Germany and the Netherlands to Poland. But it

was essential that fibres producers now tried "to get some order and discipline into the market", said Mr van Lede. Simple mergers would not be enough, he said.

In other areas, Akzo Nobel's sales were depressed by stagnant sales of PVC and reduced demand for decorative paints in Europe. However, acquisitions and currency gains helped lift earnings in the coatings division by 25 per cent, to F1 622m, on sales up 9 per cent at F1 7.44bn.

Group sales rose 4.4 per cent to F1 22.4bn. Pre-tax profits rose 3.2 per cent to F1 1.77bn.

The group also said Securum, the Swedish state-owned holding company, had agreed to sell its stake in Akzo Nobel as secondary issue, direct to institutions. Last year Securum said it intended to retain a 10.2 per cent stake until 1998.

Akzo Nobel has put in a provisional bid for LFK, and other compa-

Dasa puts missiles division up for sale

By Bernard Gray, Defence Correspondent

Daimler-Benz Aerospace (Dasa) has put LFK, its missile division, up for sale in an auction which has already attracted a provisional bid from Matra BAE Dynamics, the Anglo-French missile joint venture.

However, the German government may press Daimler-Benz to find a German buyer for the missile business, because of national security concerns.

The company said that it was considering all options for LFK, including sale, and that it was focusing on possible joint ventures.

The move follows the failure of merger talks between the missile company and the guided weapons division of Aerospatiale of France.

Matra BAE has put in a provisional bid for LFK, and other compa-

nies, such as defence and aerospace groups Thomson-CSF and Aerospatiale in France, might also be interested.

However, Matra BAE is thought to want a German company to retain a shareholding in any group, as it fears that a withdrawal of German involvement could lead to a fall in business from the German government. At the same time, Matra BAE does not want to disturb the 50 per cent stakes in its current joint venture held by the parent companies BAE and Lagardère.

A compromise being suggested would involve Dasa retaining a 50 per cent stake in LFK, while Matra BAE bought the other half. However, the German government is thought to be concerned about the potential foreign sale of LFK, and may try to broker an all-German solution.

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CITICORP

U.S.\$350,000,000

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Notice is hereby given that the Rate of Interest has been fixed at 5.5275% in respect of the Original Notes and 5.625% in respect of the Enhancement Notes and that the interest payable on the relevant Interest Payment Date March 27, 1997 against Coupon No. 136 in respect of US\$10,000 nominal of the Notes will be US\$41.53 in respect of the Original Notes and US\$42.19 in respect of the Enhancement Notes.

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Notice is hereby given that the Rate of Interest has been fixed at 5.625% and that the interest payable on the relevant Interest Payment Date May 30, 1997 against Coupon No. 43 in respect of US\$10,000 nominal of the Notes will be US\$142.19, and in respect of US\$250,000 nominal of the Notes will be US\$3,554.69.

U.S.\$500,000,000

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U.S.\$500,000,000

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Notice is hereby given that the Rate of Interest has been fixed at 5.625% and that the interest payable on the relevant Interest Payment Date March 30, 1998 against Coupon No. 45 in respect of US\$10,000 nominal of the Notes will be US\$142.19, and in respect of US\$250,000 nominal of the Notes will be US\$3,554.69.

U.S.\$500,000,000

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U.S.\$175,000,000

The Chase Manhattan Corporation
U.S.\$175,000,000

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February 28, 1997, London
By: Citibank, N.A. Corporate Agency & Trust, Agent Bank

CITIBANK

NOTICE TO HOLDERS OF THE CONVERTIBLE BONDS OF

Ult to close
an car plant

ringer up 15% in year

winter helps Gas Natural

Austria in stake sale

India shows strong growth

CITICORP

COS AND FINANCE: EUROPE

MAN posts 27% first-half decline

By Sarah Althaus

In Frankfurt

First-half net profits at MAN, the German truck, printing and plant construction group, slid 27 per cent, after a weakness at its printing subsidiary and a slump in the domestic market for commercial vehicles.

However, the group said yesterday the profits, down from DM110m to DM80m (47.4m), were in line with its forecasts and that it expected to make up for lost ground in the second half. Earnings for the current year to end-June would be flat at around the year-earlier level of DM330m, it said.

Analysts were disappointed and the shares shed DM8.50, or almost 2 per cent, to DM424. "The results were way below my expectations, but the saving grace was the sharp rise in new orders," said Mr Thomas Eifler, analyst at WestLB in Düsseldorf.

New orders climbed 9 per cent from DM10.1bn to a record DM11.6bn, bolstered by a sharp rise in foreign demand. However, most of the increase came from long-term plant construction projects which have not yet been booked, leaving only a moderate 2 per cent rise in turnover, from DM8.7bn to DM8.8bn.

Domestic sales fell 10 per cent because of a weaker commercial vehicles market and a particularly strong first half in 1995-96, when MAN booked several big domestic contracts.

The group, however, was optimistic about the second half. It said: "In view of our high order backlog and the economic upturn, group sales and orders for the whole of 1996-97 should be sharply higher than last year."

MAN Roland, the printing machine manufacturer, was the black spot of the first half, with orders tumbling 19

per cent to DM931m. Demand remained weak, particularly in the sheet-fed printing sector, and orders for newspaper printing systems had been delayed, MAN said.

Orders were expected to pick up in the second half, but the division would remain in the red for the full year. MAN had previously predicted its printing operations would break even in 1996-97.

The commercial vehicles division, MAN's biggest business unit, lifted orders 6 per cent to DM3.8bn in the half-year, fuelled by foreign growth. The success of its updated range of trucks also contributed to the increase. Domestic orders were below year-earlier levels, despite a recovery in demand in the second quarter.

Orders rose 1 per cent in diesel engines, while the plant construction division registered a 1 per cent decline from last time.

China deal for Banco Espírito

By Peter Wise in Xian, China

Banco Espírito Santo (BES), one of Portugal's leading banks, has agreed on a partnership with China Everbright, China's second-largest financial group. The tie-up is designed to link China with overseas financial markets.

State-owned Everbright is to acquire 48 per cent of Banco Espírito Santo do Oriente, the wholly-owned BES operation based in the Portuguese enclave of Macao, partly with a view to developing a retail banking network in southern China.

Mr Ricardo Salgado, Espírito Santo, BES president, said yesterday the bank also aimed to provide Everbright's corporate clients, which are mainly based in northern China, with a "gateway" for raising finance abroad.

He said the bank would also provide financial services for the wide range of Chinese industrial, energy, transport and agricultural companies in which Everbright owns assets, often in joint ventures with foreign partners.

Mr Espírito Santo is part of a top-level business delegation accompanying Portugal's President Jorge Sampaio on a state visit to China. They arrived in the northern city of Xian yesterday after visiting Beijing and Shenyang.

Mr Sampaio said he had won the support of Chinese leaders to develop Macao, which returns to Chinese rule in December 1999, as an economic and business link between China and Europe.



Jorge Sampaio plans to develop Macao as a business link between China and Europe

Bidders set to submit offers in Cosmote sell-off

By Kevin Hope in Athens

Three international mobile telephony operators - Orange of the UK, AirTouch of the US and Norway's Telenor - are expected to submit final bids today to set up and manage Greece's third cellular network in partnership with OTE, the state telecoms monopoly.

Bidders will offer a cash premium for a 30 per cent equity stake in Cosmote, the OTE mobile telephony subsidiary set up earlier this year. The company's capital base is set at Dr50bn (\$190m) and another Dr50bn will be invested in the cellular network, which will introduce the DCS1800 system to Greece.

In a separate decision, OTE's board is supposed to decide today on the structure and timing of the second stage of its partial privatisation, following the flotation of 8 per cent of the company on the Athens stock exchange last March. OTE officials are insisting that a capital increase should accompany the planned sale of at least 10 per cent of the company, with proceeds being shared equally between the government and the company. The disposal of a 10-12 per cent equity tranche would raise about Dr260bn, according to local analysts.

In the mobile project, a senior OTE official said the partner "would be selected by mid-March with equipment tenders coming out immediately afterwards, so that we can have the network launched by the autumn".

Orange is said to have a slight edge in the bidding as the only shortlisted operator that has already set up a

Greek bottler raises \$110m

By Kevin Hope in Athens

DCS1800 network. Its marketing and customer service know-how could also be adapted to improve OTE's image with fixed-wire subscribers.

Cosmote's network would focus at first on Athens and Thessaloniki, the country's two largest cities, and would cover more than 80 per cent of mainland Greece and the islands by 2001. The company is looking to capture a 30 per cent share of a cellular market projected at 1.3m subscribers by the end of the century.

The number of subscribers to Greece's two GSM mobile networks, Panafon and TeleStet, have doubled in the past year, to 500,000, but this still represents a much lower penetration rate than in Italy and other western Mediterranean countries.

Vodafone of the UK recently raised its stake in Panafon to 50.5 per cent, indicating that Cosmote will face tough competition from the existing mobile operators. The other consortium partners are France Telecom and Intracom, the Greek telecoms equipment supplier.

TeleStet is controlled by Italy's Stet International, Nynex of the US and Inter-American, the Greek insurance group.

OTE was excluded from bidding for one of the two mobile telephony licences awarded in 1992 on the grounds that it could not provide the required quality of service.

However, Panafon and TeleStet have taken legal action against the government for breaking the seven-year exclusivity included in their licences by allowing OTE to establish a cellular network.

Hellenic Bottling Company, the Coca-Cola franchiseholder for Greece, Bulgaria, Armenia and part of the former Yugoslavia, has raised \$110m in an international syndicated loan. The loan is to finance investments in eastern Europe.

HBC, listed in Athens, is part of the Cypriot-owned Leventis group.

The loan is the first international syndication for a Greek private sector company. Alpha Credit Bank of Greece acted as senior lead manager, with Citibank, NatWest, Bank of America, Lloyds Bank and American Express co-leading.

The five-year syndicated loan was heavily oversubscribed. Its interest rate is Libor plus 6.7 basis points, with a one-year moratorium before repayment in four equal instalments.

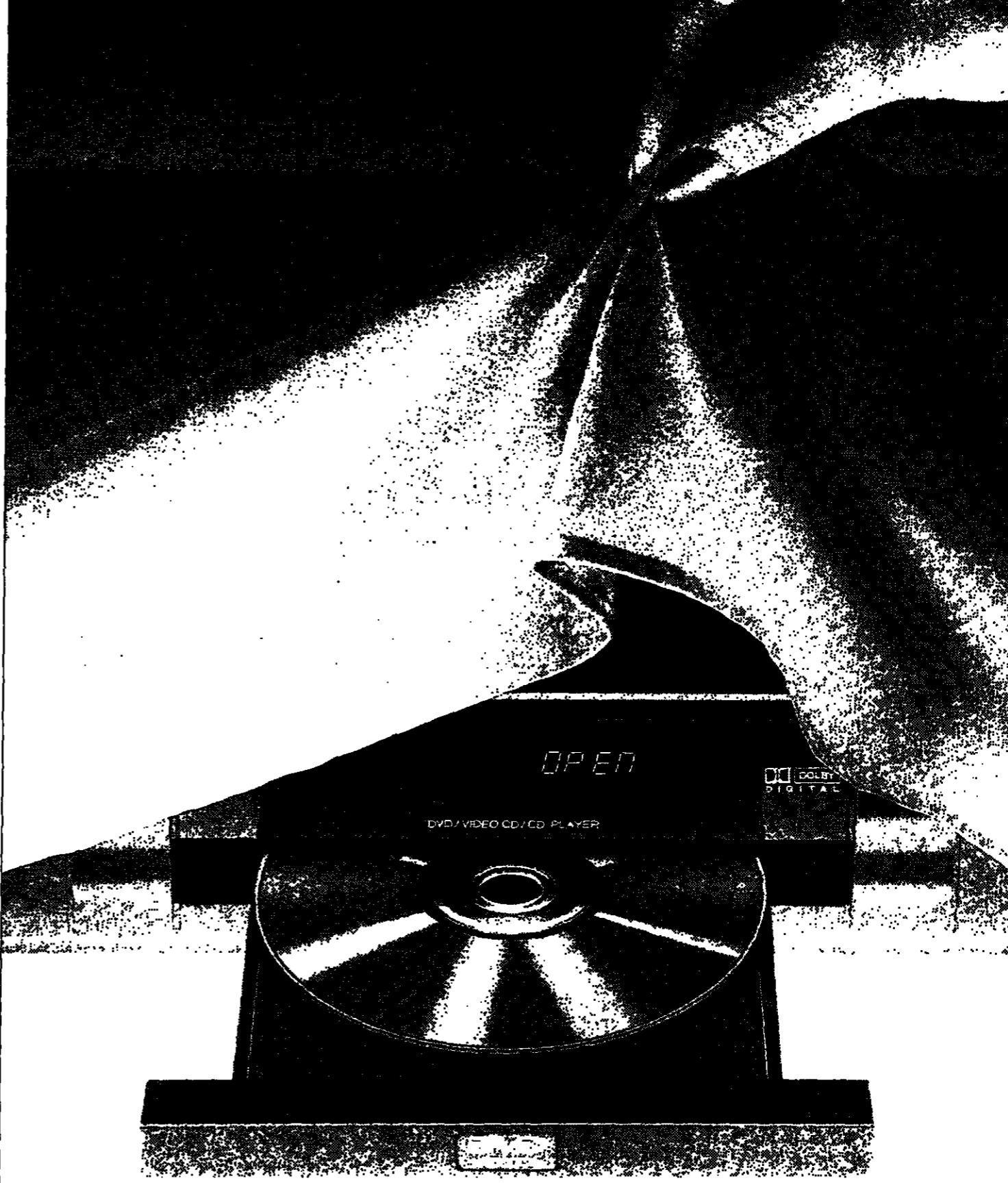
HBC said yesterday it had agreed to pay \$4m dinars (\$15.5m) for 68 per cent of ISP Beograd, the leading soft drinks bottler in Serbia, and will spend a further \$2m this year in boosting capacity at the plant and improving distribution.

HBC is also about to acquire a 51 per cent stake in Pivara Skopje, the Macedonian beer and soft drinks producer, through a joint venture with Athenian Brewery, the Heineken affiliate in Greece. It intends to spend \$20m on the acquisition and upgrading.

In addition, it will participate in the Leventis group's plans to build bottling plants in the former Soviet Union, through its stake in Molino, a Luxembourg-based Leventis company.

HBC is listed on the Athens stock exchange.

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*8.5 GB capacity refers to dual-layer DVDs. Single-layer DVDs have a 7 GB capacity.

COMPANIES AND FINANCE: ASIA-PACIFIC

Exports help Bridgestone climb 21%

By Jonathan Anells
in Tokyo

Bridgestone, the world's biggest manufacturer of tyres, posted a strong rise in full-year earnings as a result of a 30 per cent rise in export sales volume, the year's depreciation against the dollar and an improvement in cost competitiveness.

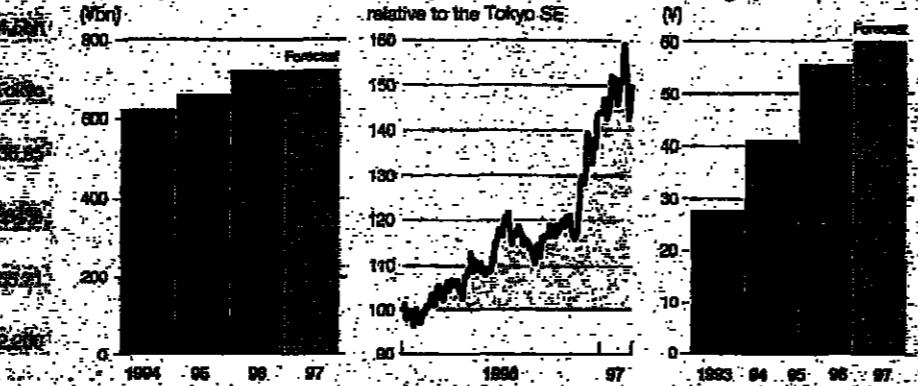
The company said parent company recurring profits for the year to December - before extraordinary items and tax - rose 21 per cent to Y35bn (US\$26m), on a 9.2 per cent rise in sales to Y72bn. Net profits jumped 37.6 per cent to Y44bn. The annual dividend is to be increased by Y1 to Y13.

Consolidated recurring profits rose 38.6 per cent to Y136bn, on a 16.1 per cent rise in sales to Y1.95bn. Net profits jumped 29.9 per cent to Y70bn. The company had forecast recurring profits of Y120bn on sales of Y1.75bn and net profits of Y70bn.

Mr Takehiko Suzuki,

PROFILE
BRIDGESTONE

Market value
Sales
(Yen)
Profit
(Yen)
Share price
relative to the Tokyo SE
(Yen)
Earnings per share
(Yen)



board director, said the company made Y17bn in foreign exchange gains.

Bridgestone, which owns Firestone of the US, said that while the year's weak sales had boosted the repatriated value of export earnings - which account for more than 53 per cent of total income - there had been an absolute increase in sales

volume, helped by aggressive marketing.

The company also reaped the benefits of improved competitiveness in its core tyremaking operations, which account for 77 per cent of total sales. "We have reduced production costs substantially. Over the last three years, [they] are over 50 per cent lower," it said.

In the domestic market, tyre sales grew 2 per cent, due to the increase in domestic vehicle production and

Tyre sales grew 11 per cent year-on-year to Y552bn, helped by a 30 per cent increase in export sales, with particularly strong growth in Middle Eastern markets, where sales ballooned by 70 per cent.

Last year Bridgestone overtook Michelin of France for the first time to rank as the world's largest manufacturer of tyres according to volume of sales. Goodyear of the US was placed third. The

increased demand for studless snow tyres, following new restrictions on the use of studded tyres on public roads.

The sales forecast is likely to be exceeded, as the company has used a conservative exchange rate of Y105 to the dollar in its 1997 business plan. However, profits may be squeezed by higher prices for natural rubber and rising depreciation costs.

Bridgestone is forecasting consolidated recurring profits of Y170bn in 1997, and net earnings of Y80bn, on estimated sales of Y2,000bn.

company accounted for \$13bn in tyre sales worldwide, according to Chain Communications.

Bridgestone said it would continue its aggressive approach to promotional activities this year by sponsoring five Formula One racing teams.

However, parent company sales are forecast to show only a marginal 0.4 per cent improvement to Y725bn, as export growth levels off and domestic production dips by 1.8 per cent, tracking an expected decline in vehicle production.

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ASIA-PACIFIC NEWS DIGEST

HK gas supplier rises 19% in year

Hong Kong and China Gas, Hong Kong's monopoly supplier of piped gas, yesterday reported a rise of 19 per cent in net profits to HK\$1.95bn (US\$262m) last year. The increase was in line with market expectations. The company, which is around one-third owned by Mr Lee Shau-kei's Henderson Investments, saw turnover rise 12.9 per cent to HK\$4.8bn.

There was a further deceleration in the rate of new meter installations, with 61,543 customers added over the year. In 1995 the number of meter installations had dropped to 65,911 from an average 70,000 a year over the previous five years.

Earnings per share improved 18.2 per cent, from 55 cents in 1995 (adjusted for the one-for-five bonus share issue) to 65 cents in 1996. The dividend is to be held at 23 cents, and will again be supplemented with a one-for-five bonus issue.

Louise Lucas, Hong Kong

Daewoo advances 3%

Daewoo Electronics, South Korea's third largest electronics company, reported a 3 per cent rise in net profits in 1996 to Won48.5bn (US\$6m), reflecting tough competition at home. Sales climbed 14 per cent to Won5.77bn, as exports of consumer electronics products, such as televisions and refrigerators, rose 25 per cent.

However, domestic sales fell 7 per cent in a stagnant market. Earnings were squeezed by a price war with Korea's other two big electronics companies, Samsung and LG Electronics.

John Burton, Seoul

Toshiba turns to LSI chips

Toshiba, the Japanese consumer electronics to power engineering conglomerate, is investing Y100bn (US\$15m) over the next few years to convert a memory chip manufacturing line in Japan into a production line for system LSI chips, which are expected to come into wider use with the spread of multimedia. The move reflects the growing shift of Japanese companies away from memory chips.

System LSI chips, which combine the functions of memory chips, microprocessors, microcontrollers and others on one chip, are increasingly in demand as the spread of multimedia and portability calls for fewer, faster and more cost-efficient semiconductors. System LSI chips are used in high performance machines such as workstations.

Toshiba aims to start production of system LSIs on its new line in the autumn. Initially, the line will produce 100,000 chips a month. But production will increase to 1m chips a month by 2000.

Michio Nakamoto, Tokyo

Red chip raises HK\$1.27bn

Guangzhou Investment Company yesterday became the latest red chip, or China-backed business, to tap the Hong Kong stock market for cash. The group, whose activities span infrastructure, property and manufacturing, raised HK\$1.27bn (US\$164m) in a share placement.

Shares were placed at HK\$3.98, representing a 4.1 per cent discount to yesterday's closing price of HK\$4.15. The company issued 320m shares in the exercise, arranged by Peregrine Capital. The funds raised will be used to acquire hotels in Guangzhou in southern China.

Louise Lucas

BankWest set to disappoint

BankWest, the Perth based regional bank which is 51 per cent controlled by Bank of Scotland and 49 per cent listed on the Australian stock exchange, said its profit for the year to February 28 is likely to be around 5 per cent less than the prospectus forecast at its public offering in January 1996. After-tax profits were forecast at A\$100.2m (US\$71.8m). It said it still anticipated the total dividend will be in line with the prospectus forecast of 16.5 cents.

Nikki Tait, Sydney

Newcrest in securitisation of mine stake

By Nikki Tait in Sydney

Newcrest, the Australian goldmining group, yesterday securitised its 11.9 per cent holding in Normandy Mining, through a complex "equity for gold" swap arrangement with ANZ Bank.

It also took a A\$134.7m (US\$104.8m) write-off in respect of the holding - held in its books at A\$470m - in its half-year results to end-December, although this charge was more than offset by A\$142.4m of abnormal gold hedging profits. Newcrest's after-tax profits for the six months were A\$15.8m, against A\$12m.

Under the deal, Newcrest is selling the 19.2% shares to ANZ at an effective price of A\$1.75 each, or A\$33m in total. In return, it receives the equivalent value of gold - about 740,000 ounces at current spot prices.

Some A\$95.6m of this was delivered yesterday, although the final A\$33m will be receivable, with interest, only in November.

ANZ becomes the beneficial owner of the Normandy shares but, at any time over

the next two years, Newcrest may repurchase all or part of them. After this period, Newcrest will either pay or receive an "adjusting amount", comprising the net change in the market price of the Normandy stake and the value of the gold in the swap. Newcrest added yesterday it had bought gold call options to manage the gold price exposure in the transaction.

The swap effectively allows Newcrest to raise cash against the holding for mine development, by selling the gold received. The group said A\$200m of the A\$337.3m proceeds would go to repay loans taken out when the Normandy stake was purchased, and that net cash raised would be A\$128.6m. The remaining A\$8m goes on the cost of the call options, ANZ's fee, and stamp duty.

The deal came as Newcrest posted a fall in profit before tax and abnormal to A\$8.5m in the half-year, compared with A\$21.7m a year ago.

After tax and abnormal charges, profits stood at A\$15.8m, compared with A\$12m previously.

Telekom Malaysia ahead 19%

By James Kyne
in Kuala Lumpur

Telekom Malaysia, the country's former telecoms monopoly, announced a 19.4 per cent increase in net profit to M\$1.88bn (US\$65m) last year, having weathered increased competition better than industry analysts thought possible.

Operating revenue rose 22.2 per cent to M\$6.42bn, while pre-tax profit was up 23.5 per cent at M\$2.38bn. Earnings per share rose 19.2 per cent to 94.3 Malaysian cents.

Mr Mohamed Said Mohamed Ali, chief executive, said Telekom planned at least M\$5bn in capital expenditure in 1997, compared with the M\$2.3bn spent in 1996. Most of the money will go on upgrading the company's fixed-line network, the area in which it faces the stiffest competition from five new competitors.

Mr Said did not expect to have to call on the market this year either through equity or bonds.

He said there had been no decision on when the company would start building the infrastructure for Malaysia's "multimedia super-corridor", a 750 sq km zone between Kuala Lumpur and

the new international airport.

However, Mr Said said the "backbone" - a 2.5 gigabit fibre optic cable - should be laid by the time Dr Mahathir Mohamad prime minister is scheduled to move his office to Putrajaya, the planned administrative capital, in September 1998.

The contribution of international dialling calls to total revenues fell from 20 per cent in 1995 to 17 per cent last year, reflecting the decrease in IDD charges in a tariff rebalancing in June 1996.

Local call charges, which were raised in the rebalancing exercise, contributed 12 per cent of total revenues, up from 6 per cent in 1995. Another tariff rebalancing is not expected this year, analysts said.

Ambitious plans by competitors for fixed line and mobile services this year look likely to detract from Telekom's earnings growth in this year. However, the competition could mean that Telekom's smaller competitors find the going increasingly tough and seek to merge with rivals or with Telekom itself. Mr Said said the company was open to future mergers with current competitors.

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He said there had been no decision on when the company would start building the infrastructure for Malaysia's "multimedia super-corridor", a 750 sq km zone between Kuala Lumpur and

the new international airport.

However, Mr Said said the "backbone" - a 2.5 gigabit fibre optic cable - should be laid by the time Dr Mahathir Mohamad prime minister is scheduled to move his office to Putrajaya, the planned administrative capital, in September 1998.

The contribution of international dialling calls to total revenues fell from 20 per cent in 1995 to 17 per cent last year, reflecting the decrease in IDD charges in a tariff rebalancing in June 1996.

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INTERNATIONAL CAPITAL MARKETS

Mixed day for European high-yielders

MARKETS REPORT

By Samer Iskandar
in London and Lisa Bransten
in New York

Government bond markets recovered unequally from Wednesday's losses, with Europe's high yielders taking diverging paths. Spanish bonds followed German bonds higher while Italian bonds fell on renewed worries over European economic and monetary union.

Italy's March bond future settled near the day's high at 103.64, up 0.37. "German fixed-income fundamentals are still con-

tive," said Mr David Brown, chief European economist at Bear Stearns. "German growth remains lacklustre and core inflation is 1 per cent, compared with 2.75 per cent in the US."

Spanish bonds also settled higher, but underperformed bonds. In Barcelona, the March bond future closed 0.15 higher at 113.80.

Meanwhile, Liffe's March future on Italian BTPs lost 0.44 at 129.79. In the cash market BTPs' 10-year spread over bonds widened by 11 basis points to 182 points. Comments by Mr Romano Prodi, prime minister, that Italy would not seek to delay

the start of Emu failed to restore traders' confidence, which had been shaken by Mr Fausto Bertinotti, leader of the Communist Refounda-

tion, who had earlier advocated "an extension in the timescale" of Emu.

Dutch bonds shrugged off a decision by the central bank to raise its special advances rate by 20 basis points to 2.70 per cent.

The benchmark 5% per cent DSL due 2007 rose 0.26 to close at 102.28, almost matching the performance of German bonds. The 10-year yield spread of bonds over DSLs remained unchanged at 10 basis points.

Traders believe the tightening had been priced into the market and the central bank said it was a technical measure to bring its rates in line with interest rates on the money markets, which have risen in recent weeks.

US Treasury prices were flat to modestly weaker in early trading yesterday as the market grappled with Wednesday's sharp sell-off.

By midday, the benchmark 30-year Treasury was 1/2 lower at 97% to yield 6.78% per cent and the two-year was down 1/2 to 99%, yielding 6.06% per cent. The March 30-year bond future, however, moved 1/2 higher to 111 1/4.

The curve that maps the yield differential between two-year and 30-year maturities flattened by another 2 basis points as the market continued to price in the increased likelihood that the Federal Reserve would raise interest rates in the first half of this year.

Mr Alan Greenspan, the chairman of the Fed, sparked those fears on Wednesday when he raised the spectre of a "pre-emptive" monetary tightening before the emergence of inflationary pressures.

Economic data did little to assuage fears of an increase in interest rates.

Weekly figures on new claims for unemployment benefits rose by 11,000 new applicants last week, but the four-week moving average hit a seven-month low, suggesting the labour market remains tight.

Meanwhile, orders for durable goods rose by 3.6 per cent in January, more than the 1 per cent gain many economists had expected.

Mr Ed Yardeni and Ms Debbie Johnson of Deutsche Morgan Grenfell in New York said that while orders data could be extremely volatile, the figures suggest that "manufacturing activity remains solid".

CAPITAL MARKETS NEWS DIGEST

China begins dam finance issuance

China will today issue the first batch of Ynbn corporate bonds for the Three Gorges Project, the gigantic dam across the Yangtze river and the world's largest hydro-power project. The issue marks the long-awaited start of domestic bond financing for the controversial project, which has been fiercely criticised by environmentalists. The three-year bonds, with an annual coupon of 11 per cent payable on maturity, will be open only to Chinese investors and will be listed on the Shanghai and Shenzhen exchanges.

China is also planning a record issue of state debt this year, targeting bond sales at individual investors. Mr Liu Jibing, deputy finance minister, said: "The state debt issue in 1997 will focus on actively promoting the construction of the state debt market and aims to satisfy the demand from individual investors."

The finance ministry plans to issue a record Yn123bn (14.8bn) in non-tradable two, three and five-year Treasury notes from March 1 to October 20. The T-notes are aimed at individuals," Mr Liu said. In total, China is expected to issue around Yn260bn in state debt this year, up from a record Yn185.2bn in 1996.

James Harding, Shanghai

GECC targets retail buyers for \$250m

INTERNATIONAL BONDS

By Conner Middelmann
in London and
Tony Tassell in Bombay

The eurobond sector was dominated yesterday by retail-oriented offerings - with institutions holding back after Mr Alan Greenspan's hawkish testimony on the US economy.

"Institutions are sticking to the sidelines for the time being - Wednesday's correction has knocked the wind out of a few people," said one London dealer.

However, others said substantial cash reserves were waiting to enter the market, especially from retail investors who have seen large redemptions recently.

The day's two largest dollar deals were targeted at European retail. General Electric Capital Corporation issued \$250m of four-year bonds yielding 4 basis points over three-year Treasuries.

Traders said that, compared with the interpolated yield curve, the bonds traded at around 4 basis points below Treasuries, making them expensive. Nevertheless, lead manager Nikko reported good demand from Swiss retail - traditionally keen buyers of GECC debt.

ING Bank raised \$250m through three-year bonds yielding 8 basis points over the equivalent Treasury. Lead PaineWebber reported good sales to Swiss and Benelux retail and even some institutional accounts.

Elsewhere, Russian finance minister Mr Alexander Livshits said Russia would launch its second eurobond within two months, expected to total DM1bn to DM1.5bn and will be led by Deutsche Morgan Grenfell and CSFB. Among other Russian issuers eyeing the market, the city of Moscow is readying its euromarket debut, expected in March, via CSFB and Nomura.

Meanwhile, Indian Petrochemicals has raised \$150m through an innovative convertible bond issue using a bank guarantee to obtain a debt rating higher than the sovereign ceiling for India.

The state-controlled company, one of India's largest petrochemical producers, also has the right to raise a further \$25m through a greenshoe option, which, if exercised, would reduce the government's stake in IPCI from around 50 per cent to 51.2 per cent after the conversion of the bonds.

The bonds, convertible into global depositary receipts over a five-year term, will be rated AA- by Standard & Poor's, higher than India's sovereign debt ratings of BB- from S&P and Baa3 from Moody's.

IPCIL said the rating was obtained using a scheme arranged by lead manager Goldman Sachs, where Bank of America effectively supplied a guarantee for the

bond. The company said the guarantee resulted in a much finer pricing than it would have achieved and brought a new class of investors to the company.

The bonds carry a coupon

rate of 2.5 per cent. On top of this, IPCIL said it will pay a guarantor's fee to Bank of America equivalent to a further 1 per cent interest rate. The company will use the funds to develop an ethylene

cracker at its petrochemicals complex at Gandhar in Gujarat state. When completed in 1998, the cracker is expected to produce more than 300,000 tonnes a year of ethylene and derivative products.

IBCA says banks under-rated

Banks have been under-rated by credit rating agencies in the past 10 years, according to IBCA. The European rating agency argues that "given the number of banks rated and their average rating, one would have expected a considerably higher number of defaults". Only one bank, Rabobank of the Netherlands, is still rated triple-A by the three largest agencies, according to IBCA. The agency also noted that, excluding Japan, the average rating of the largest banks has steadily declined between 1989 and 1994, from just below AA to around AA-.

Outside the US, only three defaults by banks rated "investment grade" have occurred in recent years. IBCA added, "They involved Barings of the UK, Comptoir des Entrepreneurs of France and New Zealand's DFC. Rescues were swiftly organised for the first two, with only the latter resulting in losses."

These findings were revealed in a report* in which IBCA compares its own ratings with those of its US competitors, Standard & Poor's and Moody's. Although the ratings assigned by the three agencies have been close to each other and have shown similar patterns of upgrades and downgrades, IBCA pointed out its own ratings have been more generous to US and Japanese banks. In Japan's case, this is explained by the importance IBCA gives to the lender of last resort and its assumption that the authorities will ensure banks are able to pay their debt in a timely manner.

For the US, IBCA attributes the differences to the pessimistic view that S&P and Moody's took of US banks faced difficulties in the early 1990s.

Samer Iskandar, London

*Who Rates the Raters. IBCA, Tel: +44(0)171 417 4222, £50.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Red	Coupon	Date	Price	Day's change	Yield	Week ago	Month ago
Australia	6.750	11/06	93.7618	+0.065	7.67	7.39	7.35	
Austria	5.625	01/07	100.5500	+0.300	5.55	5.53	5.52	5.51
Belgium	6.250	09/07	100.5000	+0.510	5.64	5.62	5.73	
Canada	7.000	01/08	100.5000	+0.500	5.65	5.64	5.64	5.64
Denmark	5.000	11/08/2000	100.2200	+0.220	6.22	6.17	6.37	
France	5.500	10/01	104.7011	+0.128	4.37	4.34	4.41	
OAT	6.500	10/06	108.6900	+0.460	5.53	5.52	5.58	
Germany	6.000	01/07	103.4500	+0.410	5.54	5.52	5.75	
Ireland	8.000	08/08	111.0000	+0.100	6.41	6.38	6.51	
Italy	7.750	12/08	108.2000	+0.105	7.35	7.30	7.37	
Japan No 143	6.500	09/01	121.3000	+0.105	1.35	1.40	1.37	
Japan No 182	3.000	09/05	104.3800	-0.070	2.23	2.45	2.38	
Netherlands	5.750	01/07	102.2600	+0.260	5.52	5.57	5.59	
Portugal	9.500	02/08	108.5000	+0.320	6.70	6.57	6.50	
Spain	7.350	03/07	103.8600	+0.320	6.74	6.72	6.81	
Sweden	6.000	12/08	104.0000	+0.222	6.05	6.03	6.05	
UK Gilt	7.500	12/08	104.2200	+0.222	6.76	6.69	6.70	
US Treasury	9.000	11/08	113.17	+1.762	7.26	7.20	7.46	
US Treasury	6.250	02/07	97.28	-14/02	6.54	6.32	6.54	
US Treasury	6.625	02/27	97.28	-24/02	6.79	6.59	6.82	
ECU (French Govt)	7.000	04/05	108.3700	+0.170	5.80	5.77	5.82	

London clearing, New York and Paris

1 Gross (includes withholding tax at 12.5 per cent payable by nonresident)

Source: MMS International

EU BOND FUTURES OPTIONS (LFFE) DM250,000 points of 100%

Strike	APR	CALLS	PUTS
10250	0.72	1.04	1.25
10300	0.44	0.76	0.97
10350	0.24	0.53	0.73
Ext. val. total, Calls 2078 Puts 16514. Previous day's open Int., Calls 132002 Puts 146514			

ITALY NOTIONAL ITALIAN GOVT. BOND (BTIP) FUTURES (LFFE) Lira 200m 100ths of 100%

Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Mar 130.10	129.79	-0.44	130.25	129.52	83638	84710
Jun 129.70	129.35	-0.29	129.70	129.00	16154	18361
129.50	129.35	-0.29	129.50	129.00	1200	18361
129.25	129.35	-0.29	129.25	129.00	1200	18361
129.00	129.35	-0.29	129.00	129.00	1200	18361
128.75	129.35	-0.29	128.75	129.00	1200	18361
128.50	129.35	-0.29	128.50	129.00	1200	18361
128.25	129.35	-0.29	128.25	129.00	1200	18361
128.00</						

II SHEFFIELD

SHEFFIELD CITY AIRPORT • by Ian Hamilton Fazey

Focus will be on business travellers

Niche markets will be the key to success for this specialised Stol project

Sheffield's dubious distinction of being the largest city in Europe without its own airport will end next month when the new Sheffield City Airport becomes operational, ending years of doubt that it and its aircraft would ever get off the ground.

The airport will be a specialised one, limited to short take-off and landing (Stol) aircraft. This will confine its passenger traffic to 100-seaters, such as the RJ series of four-engine turboprops built by British Aerospace or smaller aircraft, but lack of size is no bar to ambition.

However, this will not entail taking on the neighbouring giant at Manchester, the UK's northern hub, only 35 miles away. Sheffield will be chasing short-haul, time-conscious business travellers. The airport is a mere 10 minutes from Sheffield city centre and only a few hundred metres from the M1 motorway, with two handy exits to the north.

It may serve niche markets, for example business travellers wanting to get quickly to destinations such as London City Airport - which is of similar size - or Brussels, Paris or Amsterdam. Other niches are business charters, or regular services to difficult-to-reach destinations such as Aberdeen, where many Sheffield manufacturers have customers in the oil business.

Manchester - an hour away because of single-carriageway Peak District roads - or Leeds-Bradford, the wrong side of the West Yorkshire conurbation, or the East Midlands, a similar distance south down the M1, are thought far enough away to give a local Stol airport with a 15-minute check-in time a possibly competitive edge.

"We are trying not to raise public expectations," says Mrs Joanne Rawnsley, the director of administration. "This will not be a bucket-and-spade operation for flights to Majorca. It is going to be a business airport at the high quality end of the market, geared to European business travel."

The question is whether appropriate airlines will take the risk of laying on services. Feeder flights to Schiphol could help fill KLM jumbo jets - saving at least two hours on the journey via Manchester to catch an Amsterdam flight - but there are no commitments

yet from airlines.

Mrs Rawnsley says air taxis can also be cost-effective in the business travel market if, say, half a dozen executives need to go to a meeting within 1,000 miles.

Mr Hugh Sykes, chairman of Sheffield Development Corporation, is confident that incoming air taxis and business charters, particularly from northern Europe, will use the airport for day trips to meetings that would otherwise consume two days or more of each executive's time.

He thinks this will help make Sheffield more appealing to potential inward investors.

Last month, three 20-seater helicopters tried out the new airport - even though the air traffic control tower and passenger terminal are

still under construction - bringing in VIPs to celebrate the opening of the latest Rolls-Royce car sales franchise in the nearby Lower Don Valley.

Mr Sykes is also sure that general aviation traffic will quickly establish itself, surveys of private aircraft based at Campion in Nottinghamshire and at Humberside airport, showed significant numbers owned by Sheffield people and companies. Most of these are expected to transfer.

However, Tinsley Park, a property development company which owns the airport, has made sure it has not got all of its eggs in one basket. The company, chaired by Mr David Hartley, a former UK managing partner of Arthur Andersen, and backed by Mr Andrew Sabine and a group of co-investors, has got together with the government-backed English Partnerships to develop a 50-acre business park alongside the runway.

Indeed, the business park's dimensions - its 800,000 sq ft of buildings will be split half-and-half between office-commercial and light industrial uses - pose the question as to whether the £6m development will be an airport with a business park or a

business park with an airport.

Because of its location near the M1, the business park should be marketable anyway: piggy-backing a small airport development on the back of it gives the park an unusual if not unique selling point.

Good security will be another: apart from airports in general being well guarded, the business park's first tenant will be South Yorkshire police, with a 24-hour operational depot for motorway patrol cars and other equipment, as well as the base for the police helicopter.

The sight of four large steel drums rising over Sheffield's city centre in the next 18 months may seem like just another monument to the city's manufacturing heritage. But the four drums actually represent part of Sheffield's ambitious plans to celebrate its cultural heritage as it approaches the millennium.

The four drums will house the UK's first museum of pop music, and arguably the first museum of its kind in the world. The National Centre for Popular Music, built in the heart of Sheffield's cultural industries quarter - the home to dozens of small media businesses, including music and film companies - is designed to be a mixture of the arts and education.

Using interactive displays with audio-visual and CD-Rom technology, the centre aims to tell the story of the development of popular music across the world over the past 50 years.

Mr Stuart Rogers, chief executive of the centre, said: "Popular music is an art form and should be recognised as one. We also believe that popular music has had the most significant cultural impact on the world of any art form over the past 40 to 50 years."

The £15m centre, due to open in the summer of 1998, has already won National Lottery funding, via the Arts Council, worth £1m. Although Sheffield is proud

of its success in pop music - producing artists such as Pulp, The Human League and Joe Cocker - the centre's organisers are keen to avoid a UK or US bias.

By presenting a wider history of music, they hope to attract 500,000 visitors a year with high-tech exhibitions including what is claimed to be the world's first auditorium built for "three-dimensional" or surround sound.

But the music centre is only part of substantial regeneration plans in Sheffield ahead of the millennium, based around the city's leisure industries.

The city's flagship project aims to re-shape the face of the central core around the town hall over the next five years. Sheffield council

plans a £100m project to improve the character of the city centre, and develop space vacated by its own shrinking workforce.

The millennium project, which is due to begin this spring, will involve remodel-

Stuart Rogers (centre), chief executive of the National Centre for Popular Music, reviews a model of the centre with (left) Pulp drummer Nick Banks and Pulp guitarist Russell Senior

Picture: David Booting

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The millennium project, which is due to begin this spring, will involve remodel-

ing the central Peace Gardens and building new offices for council staff. The council plans to demolish its ugly mid-1970s extension, popularly known as "the egg box", and build a five-star hotel with 210 bedrooms in its place.

Sheffield has drawn up a £35m construction package which includes a new Millennium Gallery. The gallery will house a satellite collection from London's Victoria and Albert Museum, as well as a local collection celebrating steel crafts.

In addition, the council plans to build a Winter Garden, or covered walkway, linking Peace Gardens with Tudor Square. The Millennium Commission has agreed in principle to the plans, and has already granted £2.95m for work on Peace Gardens.

The city's aim is to create a city centre which will attract visitors at all times of the day, and highlight its historic buildings by banishing

cars near the town hall. Mr Narendra Bajaria, chief planning officer at Sheffield council, said: "We want to create new spaces which are used not only in the summer months but also in winter and in the evenings. We also want to bring out all the historical buildings and light them up, so that people can see their local heritage."

Peace Gardens, which is likely to be renamed, is expected to become a centre for outdoor music, with an international buskers' festival planned this year. But the key to the project's chances of success is encouraging cafes and restaurants into the area. The Winter Garden project is central to the plans, with the aim of luring visitors to the Crucible or Lyceum theatres to stay in the city centre rather than leaving immediately after performances.

However, Sheffield is just as keen to attract people into the city centre during working hours, particularly

microbiology department to decontaminate land and treat effluent.

Response has already won contracts from Railtrack to clean diesel spillages at stations such as Manchester Piccadilly, by using bacteria which is effective against hydrocarbons in petrochemicals. It is also winning work from factories which are keen to clean up their effluent and reduce their utility bills.

Mr John Phillips, chairman, said: "It takes quite a long time to get new technologies into established thinking and this is an embryonic science. But there are very few companies in the game, and we focus on technology that gives cost-savings or is driven by new legislation. It is still the case that industry doesn't do anything out of the goodness of its heart for the sake of the environment."

Sanderson typifies the new industries which have given Sheffield a strong and fast-growing collection of high-tech and media businesses.

At the retail end of the market, Gremlin Interactive has built a solid reputation in the highly competitive world of games software - for PCs and dedicated games machines such as Sony's PlayStation. Over the past five years, pre-tax profits have grown from £114,000 to £2.9m on sales up from £2.5m to £11.8m last year.

Gremlin's growth - its staff has risen from 40 to 160 over the same period - owes much to its use of "motion capture" systems. These reproduce physical movements to generate "real life" action in games such as its football simulation, Actua Soccer. The company is now working with Motion Analysis Corporation of California to capture facial movements for a new generation of games.

Mr Philip Hill, finance director, said: "I think the

ignorance is partly the result of Sanderson's concentration on highly specialised software services for corporate customers. Its football advertising is not so much aimed at the general public but is used as a talking point when approaching new corporate clients. Nevertheless, the football shirts also signal its ambitious plans to join the premier league of international software companies.

Sanderson, launched in Sheffield in 1983 as the computer arm of an engineering business, now has a total workforce of about 1,000 in the UK, Pacific Rim and the US. It plans to maintain its growth by lifting earnings by 15 per cent year-on-year, particularly through acquisitions and expansion in the US.

Pre-tax profits rose 17 per cent from £5.3m to £6.2m on sales up from £57.8m to £61.4m last year.

Sanderson's leading product is in the niche market of

application software, sold to individual companies - whether in manufacturing or services - to run their IT systems. By selling and developing the software package at the heart of a company's computer operations, Sanderson is also

able to supply its customers with hardware and networks. Its specialist sectors include legal practices, local government, food processors and mail order companies.

The formula has led to long relationships with its customers. Three clients have been on board since its launch 14 years ago, and Sanderson believes it can hold on to its customer base for up to 20 years. Such longevity gives it solid financial foundations too, because a third of its sales are from annual licensing fees which run from year to year.

Mr Christopher Winn,

chief executive, said: "One of the good things about application software is that it is highly specialised. In something like mail order software, the total value of the market in the UK is probably around £5m, and we have £2.5m of that. In terms of the IT industry it may be small, but we dominate this niche."

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Gremlin, which is pri-

ately owned, is still small

compared to Electronic

Arts of the US and Virgin

in the UK. But it nevertheless

manages to sell two-thirds of

its games outside the UK,

and is planning further

growth in the US with new

sports titles based on golf

and tennis.

However, Sheffield's new

high-tech industries are not

confined to computer-related

markets. The city is also

developing a niche in using

new technologies to clean up

the environment.

City Energy is planning to

open a £30m tyre-recycling

and power plant in 1998 in

the Lower Don Valley, using

new technology which limits

emissions. The project,

which has won £1m of EU

funds via Sheffield council,

uses pyrolysis gas which

"cooks" the tyres without

using oxygen. It is the first

of its kind in the UK.

The plant will distill the

tyres into their component

gases and oils, selling the

oils back to industry and

using the gas to generate

electricity.

Meanwhile, Response

Environmental Services is

using technology developed

with Sheffield University's

microbiology department to

decontaminate land and

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Piccadilly, by using bacteria

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CASE STUDY

The Lower Don Valley

A remarkable event took place in Sheffield last month: the UK's newest dealership for Rolls-Royce cars opened in the Lower Don Valley. It was remarkable because 10 years ago the valley comprised six miles of dirty, rundown, decrepit industrial estate between Sheffield city centre and the M1.

The valley was one of the most depressing symbols of industrial decline and obsolescence anywhere in Europe. It housed the bulk of Sheffield's steel and metal processing industries. Many of the factories had closed. Most of those remaining looked unpleasant and filthy.

There were acres of old slum housing where steelworkers lived. Many of the houses had strange holes beneath them where the occupants had lit the floorboards to dig out coal lying just beneath the surface. When their own supply was exhausted, they burrowed sideways under their neighbours' homes.

Land was poisoned with industrial waste that included heavy metals, PCBs, potassium, sulphur, asbestos and other dangerous chemicals, often capped with as much as 20ft of concrete to build a factory on. When reclamation began on one site and the top layer of contamination was removed, the next layer down burst spontaneously into flames because it contained so much phosphorus.

It followed that most land was worthless, although it had a value in the books of the companies that owned it. But it was impossible for them to develop or sell it because the cost of decontamination would have been more than the land would have fetched.

Yet today this land is worth between £30,000 and £200,000 an acre, depending on whether it is for industrial or office use. It

THE SUPERTRAM • by Ian Hamilton Fazey

Successful at a price

Because it is losing money, the project is set to become an election issue

There is little doubt that Sheffield's Supertram is proving a technical, engineering and passenger-carrying success.

Trams glide impressively over 29km of tracks along three principal transport corridors and the system has greatly enhanced appearances around the Cathedral and the Cutlers' Hall. There are 40 per cent more passengers, week for week than last year.

There, however, enthusiasm for the system runs into argument and accusations. Among other things, the Supertram is losing money.

The system was built with £240m of public funds by South Yorkshire Passenger Transport Executive and started operating in 1994 on the understanding that debts would be cleared by privatisation. The sale is due to be completed by the end of next month, but no one expects the proceeds to come anywhere near meeting the £57m needed to cover the Supertram's liabilities.

Moreover, some potential operators have proposed paying what would be a negative sum by demanding that operating costs be subsidised by the transport executive for five years to cover losses while the tram establishes its market.

If there is a shortfall from the sale, it will have to be met by the four councils of South Yorkshire via a precept on council taxes imposed by the transport executive. The impact of this would be as much as £140 on every council tax bill. The residents of Barnsley, Rotherham and Doncaster, where the tram does not even run, are understandably even more upset by this prospect than their Sheffield neighbours.

The government has offered the transport executive an extra £20m in credit approvals - in effect meaning taxpayers would service that amount of debt - as well as an option to capitalise some items to reduce current account obligations.

However, the four councils

have been decontaminated and brought up to developable condition. New factories are springing up almost by the month, some in buff-coloured brick cladding that would have been blackened in months in the Lower Don Valley of old.

Within half a mile of the new Rolls-Royce dealership are another half-dozen new or refurbished car sales centres. At the M1 end of the valley, on the site once occupied by Hadfields steelworks, the gigantic Meadowhall Centre last year pulled in more than 30m shoppers, marking six years of 10 per cent annual growth. Meadowhall and its shops employ 6,000 permanent staff, with another 2,000 available during the pre-Christmas shopping rush.

Nearby are new offices for accountancy firms and management consultants. A little way up-river towards Sheffield are modern steel and glass buildings housing substantial financial services operations for Norwich Union and Abbey National. A new call centre for Freemans, the mail order company, will open shortly. Decrepit factories have gone, slum housing has been demolished, their "coal holes" filled in; dereliction has been eliminated. There is a balanced industrial structure of manufacturing, retail and professional services. New industries of sport and entertainment have been created by the building of the Don Valley Stadium and the indoor Sheffield Arena.

Meanwhile, steel and metal processing companies based in the valley have been cleaning up, re-cladding their buildings to give them a modern look, and brightening them up with well-designed signs and logos. Where possible, the road infrastructure has been upgraded to dual carriageways; there are

efficient one-way mini-systems in other places, although one historic "canyon" composed of tall redbrick frontages to working factories owned by Sheffield Forgemasters is being cleaned and preserved, crowding the narrow thoroughfare as a reminder of yesteryear. These improvements have been driven through by the Sheffield Development Corporation which was set up in 1978 to regenerate the valley. However, credit for

the original blueprint must go to Mr Mel Burrell who 10 years ago led a team of Coopers & Lybrand consultants, paid for by government, the local authority and the private sector, to work out what should be done.

Mr Burrell, who now heads St Paul's Development, a private sector regeneration

company based in the nearby Dearne Valley coal closure area, says the original plan's only important error was to underestimate the amount and costs of decontamination. The basic approach - of buying land and assembling sites from multiple ownership, and then clearing and cleaning it to make it developable by private sector investors with no or no downside risk - has worked.

Originally, Sheffield city council wanted to run the strategy itself but the government refused to fund it without having control. Sheffield Development Corporation was therefore forced on the city and given its own planning powers.

Chaired by Mr Hugh Sykes, a successful locally-based businessman, it has had its ups and downs, including tensions at the top that saw the original management team replaced. But Mr Sykes and Mr Graham Kendall, a civil servant seconded as chief executive, have run operations for the past six years.

The outcome, however,

was in doubt for some time. Undoing decades of neglect and pollution was expensive and difficult, with little to show for years. The private sector resented being served with compulsory purchase orders to speed things up, although only two had to be enforced because they generally catalysed negotiations.

There was a clash with the city council over allowing retail sheds to be developed ahead of manufacturing, but without them land would have remained derelict, deterring developers who would not have built new offices opposite the new retail centre.

Mr Kendall says: "We spent a long time developing the product - land, some buildings, transport infrastructure. Then about two years ago it was clear we were going to succeed as some big projects came through."

Mr Sykes adds: "The main lesson is that to accomplish this you have to create an organisation independent of the local authority and, to some extent, central government which will take



Reclaiming contaminated land in the Lower Don Valley for new industrial and office business

land development 236ha; and grants to 320 companies nearly £18m. Nearly £2m has been spent on environmental improvements to 236ha while £1.25m has gone to 75 community groups.

With another £21.6m for administration and marketing, £10.6m has been needed, of which £10.1m came from the government and nearly £7.8m from the European Regional Development Fund.

However, the changes have levered £638m of private sector investment

because the Lower Don Valley is once again a safe place for companies to put their money.

There is more than 5m sq ft of new floorspace. At the same time, about 18,000 jobs have already been created at a cost per job of about £6,000, with another 6,500 new jobs known to be in the pipeline.

In addition to all this, the Lower Don Valley looks good, modern, busy and successful - just the place you might go to buy a new Rolls-Royce.

Ian Hamilton Fazey

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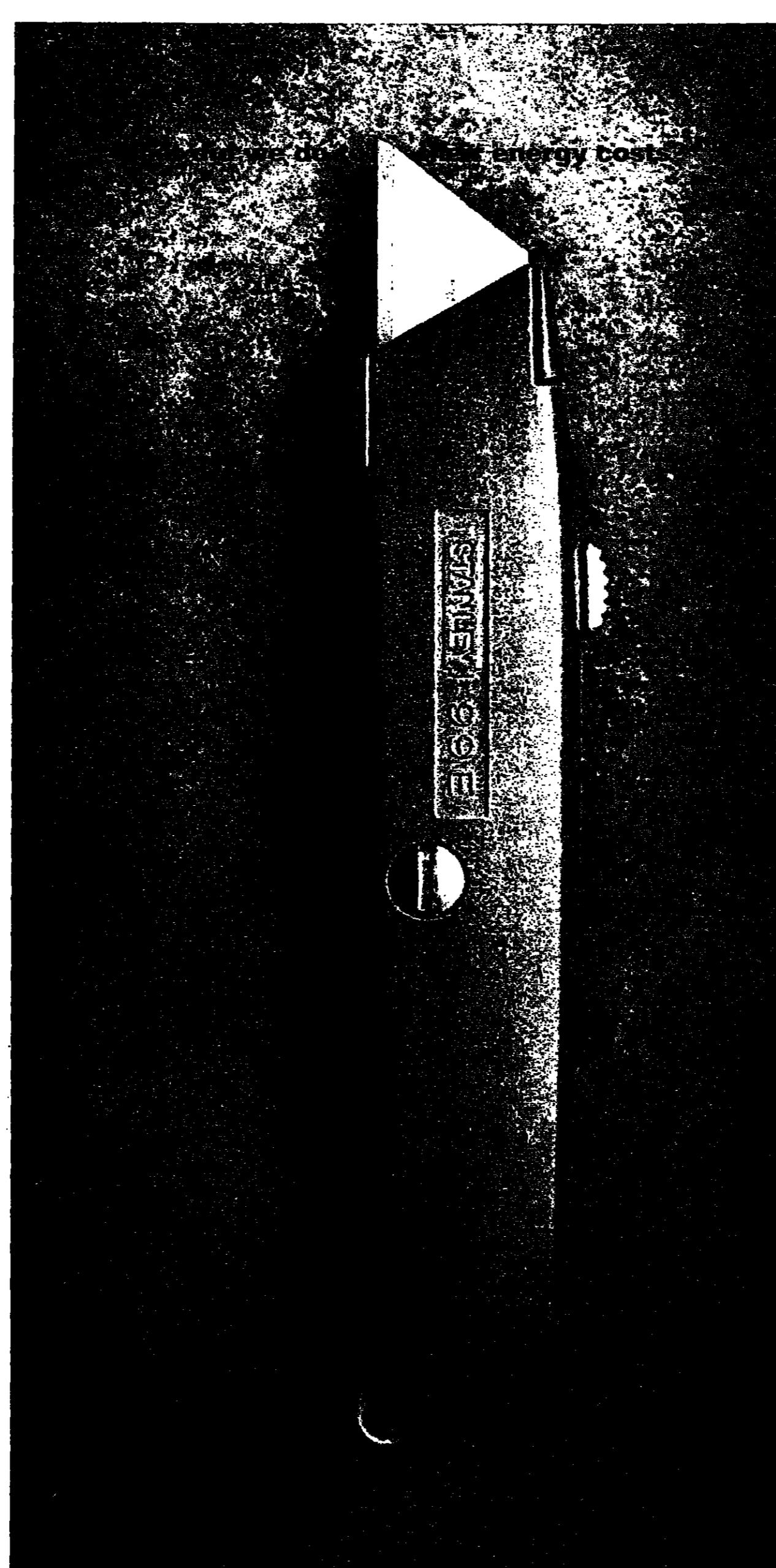
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THE STEEL INDUSTRY • by Richard Wolfe

Export sales fuel demand

Productivity and quality levels have risen at least as fast as the number of jobs has fallen

Sheffield's steel industry has become a textbook case study of manufacturing in post-war Britain. From the sharp decline of the 1970s and 1980s to its steady re-emergence in the 1990s, the turbulent fortunes of Sheffield steel have remained the key concern of the city's commercial life.

Today's optimism among Sheffield's leading steel manufacturers contrasts sharply with the staggering drop in employment in recent years. In 1971, one in 10 of the city's population was employed in the industry. But between the mid-1970s and mid-1980s, more than 18,000 jobs were axed among the steelmakers of the Lower Don Valley alone.

Today, the retail sector, lead by the monumental Meadowhall development, is a more dominant force in employment than the industry behind Sheffield's nickname, Steel City.

The Sheffield steel industry is quite proud of being able to drag itself out of the absolutely desperate situation in the early 1980s," said Mr Peter Fish, managing director of Meps consultancy in Sheffield. "Sheffield was a microcosm of UK industry in general, with all its poor labour relations and low investment."

However, the decline in jobs represents only half the story. Productivity and quality levels have risen at least as fast as employment has fallen. And export sales, lifted by the weak value of the pound in the mid-1990s, have replaced much of the demand which was decimated in the early 1980s.

Mr Richard Field, Master Cutler - the ambassador for manufacturing in the Sheffield area - said: "We are now making more steel than we did at the height of the second world war. We represent £18bn of turnover a year in steel and cutlery,

which is a substantial part of the UK's industrial base. The Sheffield name exudes excellence throughout the world and we are going from strength to strength."

The twin goals of rationalising the workforce and lifting quality levels remain undiminished.

At British Steel's engineering steels division in Sheffield, the largest producer of engineering steels in Europe, the number of manufacturing sites and jobs has fallen substantially. Today, the business is centred on two sites in Rotherham and Stocksbridge, compared to nine sites in the early 1980s, as employment has dropped from 18,000 to 3,500.

Mr Don Turner, managing director, said: "Our story applies to the steel industry across the western world, which is one of continually driving cost down. Year on year we need a constant cost price reduction. But as you do that, you have to try to get a more skilled workforce so you have to drive the skills base up."

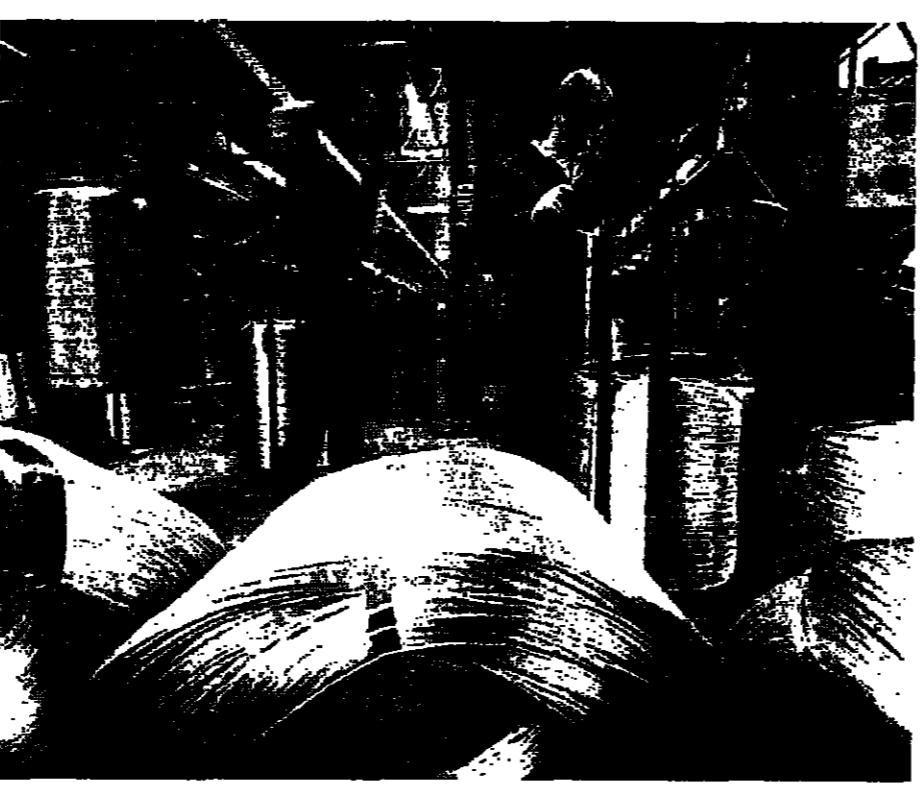
A typical example of British Steel's approach is its strategy with the vehicle supply chain, for which it produces more than half its output. The company is currently in the early stages of developing an ultra-lightweight suspension system to take weight out of the vehicle and reduce fuel consumption.

Such projects in material design and product development are reinforced by the company's existing strengths in producing high performance steels for the aerospace sector, which is currently one of its most buoyant customers.

The twin strategy of job-cutting and investment in people and technology is mirrored further up the supply chain at Tinsley Wire, the UK's largest producer of wire and wire products.

Tinsley Wire - co-owned by British Steel and the Bekkert group of Belgium - is investing £23m over three years in the UK, including its two plants in Sheffield.

The group has enjoyed



Cable armoured wire being prepared at one of Tinsley Wire's Sheffield plants for export to Japan

strong demand for its wiring

for communications cables, and for its wire fence products for the agricultural sector. But in spite of such growth it has also shed 200 workers, representing 20 per cent of its workforce, over the past 2½ years.

Mr Krys Szokalo, man-

aging director of Tinsley Wire UK, said: "Our business is very competitive within the UK and Europe and there will be a lot more competition over the next few years, particularly with the changes in eastern Europe and China."

"So we have benchmarked ourselves against the best operations anywhere in the world, and are looking to invest in new technology and improve the layout of our factories. We want to have far more modern IT systems, to give a faster response to our customers, as well as investing in our people so that we can maximise the capability of these new technologies. It is an ongoing process."

Faced with such stiff competition, the most successful Sheffield steel companies

have concentrated on highly profitable products in niche areas with big barriers to new competitors.

Sheffield Forgemasters is

perhaps the most extreme example of this strategy, as one of a handful of manufacturers of its type across the world.

Mr Stuart Wallis, chairman, said: "Very few others can compete with us because we deal with very large bits of metal - both forgings and castings of up to 300 tons a piece. We are talking about very, very large machines - massive furnaces and huge lathes, one of which is a quarter of a mile long. Technically, we are very strong and the cost of entry is very high."

Order books at Sheffield Forgemasters are at record levels in recent years, after a long campaign to rebuild its reputation following its involvement in the Iraqi supergun affair. The affair delayed its long-held ambition to float the company, which is owned by its management and workforce. However the flotation plans have been revived, boosted

by strong demand from aerospace and oil customers.

Over the long term, the

demand for steel products

seems positive. At Avesta

Sheffield, the stainless steel

producer, the company pre-

dicts annual sales growth of

between 4 and 5 per cent.

Avesta's main aim in Shef-

field is to increase capacity in

its melting shop and cold

rolling mill, in an attempt to

reduce production bottle-

necks.

But in the short term,

Sheffield's steel industry has

to cope with an unexpected

problem. The recent leap in

the value of sterling threat-

ens not just Sheffield steel's

exports but could once again

open the door to higher for-

ign imports.

Many steel businesses

can ride out the exchange

rate for a few weeks but

eventually the time comes

when you cannot afford to

maintain your prices," said

Mr Fish. "Competition with

the rest of the world, at a

time of an appreciating

pound, is probably the greatest

measure of Sheffield's

productivity gains. We are

coming to a watershed."

Mr Richard Field, who rep-

CUTLERY • by Richard Wolfe

A comfort zone built on branding

Sheffield's reputation for quality and expertise has helped survivors

In 1297, two innocuous Sheffield tradesmen were recorded as paying their taxes in an obscure document called the Yorkshire Lay Subsidy Return. Robert the Cutler and Simon Cissor may not have been prominent in their day, but for today's cutlery industry they represent the birth of a Sheffield trademark.

The cutlery industry makes more than 100m blades a year, now that we are focused very much on quality cutlery - whether it is tableware, surgical blades, or any cutting tool. That is why we in the Cutlers Company have protected the name of Sheffield over the years, and anyone who wishes to use the name has to manufacture in this city."

Today the name of Sheffield cutlery is as heavily protected as Champagne wine, and gives the 700-year-old industry one of its greatest marketing assets. Supervised by the Cutlers Company since 1624, the good name of Sheffield cutlery has proved one of the industry's few defences against 40 years of cheap foreign imports.

Nevertheless, imports, mainly from south-east Asia, have decimated the trade. An estimated 28,000 jobs have disappeared since the late 1950s, as imports challenged Sheffield's dominance. At the same time, the UK producers' key markets in the British colonies were declining with the Empire itself.

Sheffield also suffered from changing fashions in the UK, where households stopped buying cut-throat razors and the family bread knife was made redundant by the invention of sliced bread.

The combination of competition and historic trends cut Sheffield's 300 cutlery companies to about 12. Those who have survived the huge structural changes have relied on Sheffield's reputation for quality and expertise in cutlery - ranging from silver dining services to the trimming and craft knives produced in the city by Stanley Tools.

Fashion, however, is still running in the opposite direction to Arthur Price's main products. House-builders are increasingly constructing homes with no dining rooms, spelling an end to formal dining - and formal cutlery sets. So the company is mov-

ing into more designer-led cutlery with coloured handles to appeal to a younger market.

But its largest growth area is now in exports. Mr Price said: "We have got to concentrate more on overseas business because we are beginning to fill the top end of the market. We now sell to the Middle East, Mediterranean countries, Japan and the former Soviet countries."

Other Sheffield cutlers have concentrated more on a mass market approach. Richardson Sheffield, based in the city since 1839, has made itself one of the largest kitchen knife producers in the world. Richardson, which is part of the Australian group McPherson Homewares, produces 400,000 blades a week from its two factories in Sheffield and has annual sales of about £17m.

Its central strategy is based around technological innovation. The marketing concept was to produce a knife which "never needs sharpening", by using a new serrated edge, with a series of "hills and valleys" cut by a laser.

This knife led the successful Laser brand, which was further developed in 1995 with the Fusion Edge range of knives with blades made of tungsten carbide - which Richardson claims can last 11,000 times longer than a traditional knife.

Ruth Marshall, of Richardson Sheffield, said: "We compete on quality and on the brand name. We do have a mass market approach, but we are not at the bottom end of the market. The buyers are looking for a range of things, including the brand, quality and our reliability of delivery."

"We realise that the Far East is an ever-present threat, and that is why we need to look at ways to maintain where we are at the moment with technology. We were at the forefront of technology with Laser in the 1980s and that is where we want to stay."



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CURRENCIES AND MONEY

Hedge funds join move into yen

MARKETS REPORT

By Simon Kuper

The yen surged yesterday as hedge funds followed Japanese exporters in buying the currency.

The yen was buoyed by strong Japanese industrial production figures, as well as by signs that the currency was overvalued. Many New Zealand manufacturers and farmers have been complaining about the Kiwi dollar's strength.

The Mexican peso was down 8.1 centavos to 7.87 pesos per dollar in mid-session trading yesterday. Traders said the outflow into dollars was due to high yields on US long bonds, and to doubts over whether the US would certify Mexico as an ally in the war on drugs.

■ Pounds in New York
Feb 27 Latest Prev. close
1 cent 1.6265 1.6245
1 cent 1.6266 1.6237
3 mth 1.6238 1.6151
1 yr 1.6184 1.6227

■ POUND SPOT FORWARD AGAINST THE POUND

	Closing mid-point	Change on day	Bid/offer	Day's mid	One month	Three months	One year	Bank of		
				high	low	Rate	%PA	Rate	%PA	Eng. Indx
Europe										
Austria	861.3480	-0.0745	391.1	581	18,261	18,250	25.7	18,248	2.1	-
Belgium	851.56727	-0.2288	545.5	509	57,050	56,492	55.777	2.6	58,103	2.8
Denmark	850.00000	-0.1815	716.1	697	10,574	10,537	10,465	1.0	10,425	2.3
Finland	849.1871	-0.0269	700.1	692	10,574	10,537	10,465	1.0	10,425	2.3
France	851.2737	-0.0265	700.1	774	6,825	6,814	9,253	2.7	6,915	2.9
Germany	851.2742	-0.0105	478.1	505	2,767	2,740	2,742	2.8	2,724	2.9
Greece	851.43045	-0.0151	829.1	820	43,978	42,978	42,900	-	43,978	-
Iceland	851.1036	-0.0119	682.1	651	1,027	1,028	1,029	0.3	1,028	0.7
Ireland	851.27354	-0.1077	207.1	507	27,634	27,253	27,250	1.2	27,408	-1.0
Italy	851.56727	-0.55	509	507	57,050	56,492	55.777	2.8	55,117	2.8
Netherlands	850.00000	-0.0116	700.1	692	10,574	10,537	10,465	1.0	10,425	2.3
Norway	850.16448	-0.0277	361.1	367	10,649	10,675	10,624	1.4	10,754	1.2
Portugal	851.27076	-1.148	202	238	27,725	27,514	27,274	-0.8	27,648	-0.8
Spain	851.23316	-0.0222	611.1	224	23,260	23,262	23,121	0.0	23,021	0.2
Sweden	851.12157	-0.0227	682.1	851	12,125	12,147	12,567	1.9	12,112	2.1
Switzerland	851.24085	-0.0055	648.1	777	2,419	2,398	2,398	4.0	2,383	3.8
UK	851.14194	-0.0005	197.1	171	1,422	1,421	1,4143	1.7	1,4095	1.9
US	851.17537	-	-	-	-	-	-	-	-	-
■ D-MARK										
Against the Yen (Y/ per DM)										
75	74	73	72	71	70	69	68	67	66	65
Jan 1987	Feb	Source: Datamark								

tional in London, said: "You are seeing tangible plays on the yen, rather than traders taking on the dollar directly."

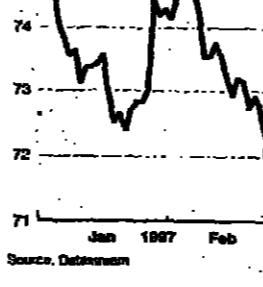
The New Zealand dollar fell on rumours that Mr Don Brash, governor of the country's Reserve Bank, had said that the currency was overvalued. Many New Zealand manufacturers and farmers have been complaining about the Kiwi dollar's strength.

The Mexican peso was down 8.1 centavos to 7.87 pesos per dollar in mid-session trading yesterday. Traders said the outflow into dollars was due to high yields on US long bonds, and to doubts over whether the US would certify Mexico as an ally in the war on drugs.

Thirdly, said Mr Gunner, recent strong Japanese economic data could turn out to be a blip. Again, the impending tax increases were the reason, he said. Many manufacturers had boosted stocks in January, expecting strong buying in February and March ahead of the tax rises.

"I think things could change around quickly after the fiscal year ends," Mr Gunner said. "There will be a renewed focus on Japanese economic weakness."

■ D-MARK
Against the Yen (Y/ per DM)



Conversely, Mr Michael Petley of the ECU Group in London forecast at least a 5 per cent rebound in the yen against sterling, to test technical resistance at 118 to the pound. This was because the yen yesterday broke sterling's steep upturn.

■ News that the Netherlands had raised interest rates caused only a brief

stumble in the dollar. The Dutch central bank said it was raising its special advances rate from 250 per cent to 270 per cent.

Mr Gunner said: "The dollar initially dipped, because some people thought that if the Dutch raised the Bundesbank would raise too. But that was rubbish." The dollar quickly recovered.

■ A record number of fund managers are overweight in dollar assets, but the dollar is likely to tread water rather than sink, according to Merrill Lynch's latest quarterly global investor survey.

Of 100 large international investors polled worldwide, 78 per cent said they were

overweight in dollars - the highest level since the survey began eight years ago.

However, Mr Michael Rosenberg, head of international fixed income research at Merrill Lynch in New York, pointed out that only 20 per cent of investors said they were "heavily overweight" in dollars.

This showed, he said, that while most investors had already bet on the dollar, only a few had bet very strongly. That meant there was room for further dollar buying on dips. The dollar rose 1.4 per cent against the yen in the three months to mid-February, when the survey was held.

Most investors said they were underweight in yen, D-Mark and French franc assets. Only 7 per cent said they were overweight in the franc, the lowest proportion ever. Just 8 per cent were overweight in the yen, and 19 per cent in the D-Mark.

WORLD INTEREST RATES											
MONEY RATES		INTEREST RATES									
February 27	Over night	One month	Three months	Six months	One year	Long term	Dis. rate	Repo rate	Over night	One month	Three months
Belgium	3.1	3.0	3.5	3.4	3.4	3.0	6.00	2.50	5.1	5.0	5.1
France	3.1	3.2	3.3	3.4	3.4	3.2	3.10	-	4.75	-	-
Germany	4.5	3.5	3.4	3.4	3.4	4.5	4.50	2.00	5.5	5.5	5.5
Iceland	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.5	5.5	5.5
Italy	7.6	7.6	7.6	7.6	7.6	7.6	8.25	6.75	7.35	7.35	7.35
Netherlands	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.00	3.00	3.00	3.00
Spain	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.00	1.00	1.00
Sweden	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
UK	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.5	5.5	5.5
US	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.00	5.00	5.00
Japan	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.0	5.0	5.0

■ LIBOR INTERBANK: Lending rates are offered rates for \$10m quoted to the market by four major London banks: Bank of America, Deutsche Bank, Morgan Stanley and Salomon Brothers. Mid rates are shown for the domestic Money Rates, US CDs, ECU and SDR Linked Deposits (US).

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■ LIBOR interest rates are offered rates for \$1

COMMODITIES AND AGRICULTURE

Nickel fears lift palladium and platinum

MARKETS REPORT

By Peter John

Palladium and platinum – the two precious metal by-products of nickel – jumped yesterday as worries about a strike in Russia highlight a serious supply shortage.

Palladium rose \$7 to \$157 a troy ounce by London's afternoon "fix" and platinum, an essential material in many industrial catalysts, rose to \$322 per ounce in London, up from \$303.50 late on Wednesday.

Russia is responsible for two-

thirds of the world's \$1bn a year palladium market and a large proportion of the \$3bn-\$4bn a year platinum market. But international sales have dried up.

"There is uncertainty about who is in control of the marketing of precious metals and there has been no delivery of Russian palladium or platinum since the start of the year," said Mr Jeremy Coombes, marketing manager at Johnson Matthey.

For a while, the situation compensated for Russian over-supply last year but the cost of borrowing palladium had risen recently as supplies have dried up, he said.

Then, this week, it was revealed that Norilsk Nickel, whose mine produces all of Russia's palladium as well as 80 per cent of its platinum and large quantities of the world's nickel, might face a strike. Workers at the Siberian plant have not been paid since October.

That news acted as a catalyst to strains already beginning to show themselves in the market. New York speculators took advantage of the situation and bought the precious metals up from their recent 3½-year low.

The lack of supply and sharply

rising price of palladium will be most keenly felt by Japanese manufacturers, which in 1995 accounted for 2m ounces. They use palladium for multi-layer ceramic capacitors in equipment such as mobile telephones and computers, and also in catalytic converters.

Nickel held on to the sharp overnight gains seen during Asian trading, and the three-month contract closed \$100 higher at \$8,115 at the LME's afternoon fix.

Gold prices were swept along too and reached \$360 an ounce by 4pm, up about \$7 on the day.

Technical support for oil traded on the International Petroleum Exchange lifted prices as they began to reach chart support levels. But concern about oversupply kicked in later and Brent crude for April delivery ended the day slightly lower at \$19.46 by 6pm. Analysts remain nervous about supply. Mr Geoff Pyne of UBS argues that daily exports from Iraq will have to jump by almost 50 per cent if the country is to fulfil its 90-day quota to sell 1bn of oil in return for humanitarian aid.

Coffee reacted to a report late

on Wednesday, that the Colombian 1996-97 crop estimate was down by 2m bags to 8.3m bags. Although the report was later rebuffed, dealers were unable to react to the denial until yesterday morning when they sold the May contract down \$5 to \$1,575.

Cocoa extended earlier gains on the back of a rebound in New York and ahead of expiry of the March contract on Monday. The contract for May traded on Liffe ended up 27 at \$293. Traders said a close on May above \$290 would be encouraging and could pave the way for short-covering.

Canadian exports of grain delayed

By Maggie Urry

Canadian grain exports have fallen behind schedule because of delays in transportation from growing regions to ports, according to the International Grains Council.

In its monthly report on the grain market, the IGC highlights the Canadian problems – which could provide opportunities for other exporters.

Shipments through the west coast ports account for two-thirds of Canada's exports of grain and oilseed, which go to markets in the Far East and South America. In the August to December period shipments were running at the lowest rate for 10 years, according to the Canadian Wheat Board.

The IGC report said "the CWB has stated that it will not be seeking further nominations for grain for delivery before the end of April". It suggested that some importers may look for alternative sources, though supplies of equivalent quality are limited. The CWB is giving priority to supplying its traditional markets, such as Japan.

Severe winter weather is largely to blame for the delays, the IGC said. Heavy snow made it difficult to move grain from farms to local elevators, and on to rail-cars. The profound cold also caused technical difficulties for the locomotives, some of which were leased from the US, such as reducing the efficiency of air brakes.

As a result, nearly 50 ships were waiting for berths at the ports of Vancouver and Prince Rupert. Meanwhile, the CWB is paying a bonus to producers who move grain by truck. The additional costs caused by the delays totalled C\$63m (US\$48m).

Surplus seen in supplies of copper

By David Blackwell

World copper supplies are likely to show a modest surplus this year unless Chinese consumption tips the balance, according to RTZ-C's chief economist.

Speaking after the mining group announced a 30 per cent drop in pre-tax profits, Mr David Humphreys said a swing of just 200,000 tonnes in Chinese copper off-take could make the difference between surplus and deficit.

Mr Humphreys pointed out that, according to official sources, China's net imports of copper quadrupled between 1990 and 1996, as did imports of aluminium and iron ore. If scrap were included in the copper figures, Chinese imports last year amounted to more than 1m tonnes, or about 8 per cent of total world consumption of refined metal.

Official statistics for 1996 were also believed to have omitted large tonnages imported for the government's strategic reserve. Mr Humphreys said it was the combination of growing

demand from Chinese consumers and China's reserve policy that could tip the copper market into deficit.

Meanwhile, he was expecting growth in the metals markets this year and in 1998 to be more broadly based than for several years.

The resilience of the US economy had been underestimated and Europe was poised for "some modest acceleration of growth".

A difficult 1997 for Japan would be offset by strong growth from both China and other emerging economies in south-east Asia.

In total, said Mr Humphreys, the metals markets should have moderate support from the developed world, bolstered by strong demand from developing countries.

The victim of the more favourable climate for industrial materials was gold, which usually thrives on currency instability and economic uncertainty.

"For the many whose job it is to foster a belief in gold these are clearly depressing times," he said.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINUM 99.7% PURITY (\$ per tonne)

Close 1624-26 1633-65

Previous 1624.5-5.5 1634.5-5.5

High/low 1622.5 1673/1647

AM Official 1622-23 1633-54

Kerb close 1651.5-52.0

Open int. 257,742

Total daily turnover 75,812

■ ALUMINUM ALLOY (\$ per tonne)

Close 1520-25 1545-47

Previous 1520-30 1545-50

High/low 1520.5-1545.5-50

AM Official 1520-30 1545-47

Kerb close 1540-50

Open int. 5,938

Total daily turnover 3,895

■ LEAD (\$ per tonne)

Close 663.5-65.5 667-69

Previous 659-69 665-6

High/low 675/664

AM Official 659-9.5 664-4.5

Kerb close 675-76

Open int. 38,035

Total daily turnover 6,784

■ NICKEL (\$ per tonne)

Close 8020-30 8110-20

Previous 7910-20 8010-20

High/low 7910/8010

AM Official 7935-40 8025-30

Kerb close 8050-60

Open int. 49,827

Total daily turnover 13,288

■ TIN (\$ per tonne)

Close 5760-70 5810-20

Previous 5785-65 5810-20

High/low 5785/5700

AM Official 5770-75 5820-25

Kerb close 5850-70

Open int. 15,533

Total daily turnover 5,515

■ ZINC, special high grade (\$ per tonne)

Close 1211.5-12.5 1223-33

Previous 1193.5-4.5 1216-7

High/low 1201.5 1235/1223

AM Official 1201-21 1224-24.5

Kerb close 1227-28

Open int. 13,378

Total daily turnover 25,726

■ COPPER, grade A (\$ per tonne)

Close 2458.5-60.5 2391-92

Previous 2439.5-41.5 2392-93

High/low 2425-55 2392-93

AM Official 2425-55 2392-93

Kerb close 2394-95

Open int. 23,787

Total daily turnover 71,101

■ LME AM Official 1256/1256

LME Closing 1256/1256

Spot 1255.1/1255.1 1255.1/1255.1

Close 1255.1/1255.1 1255.1/1255.1

Open int. 1255.1/1255.1 1255.1/1255.1

Total daily turnover 1255.1/1255.1

■ HIGH GRADE COPPER (COMEX)

Close 111.80 -114.50 111.50 543 602

Previous 112.95 -115.10 113.00 112.60 120.83

High/low 112.95 -113.05 112.50 112.35 12.307

AM Official 111.35 -12.00 112.65 110.40 125.517

Kerb close 109.55 -112.00 109.25 114 916

Open int. 107.85 -11.30 108.00 107.80 113.10

Total daily turnover 10,987 60,311

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold/Troy oz \$ price £ equiv \$/oz equiv

Close 322.55 114.50 322.55

Opening 355.60 219.042 322.541

Morning fix 356.60 219.042 322.541

Afternoon fix 360.00 221.321 330.568

Day's High 322.50-322.60

Day's Low 353.50-353.50

Previous close 353.70-354.20

Loco Ldt Mean Gold Lending Rates (\$s US\$)

1 month 3.80 6 months 3.88

2 months 3.89 12 months 4.00

3 months 3.89

Silver Fix p/roy oz US cts £ equiv

Spot 322.55 525 25

3 months 326.95 531.55

6 months 331.40 537.85

1 year 340.45 550.80

Gold Coins \$ price £ equiv.

Kruegerland 350-357 218-220

Maple Leaf 68-86 51-53

New Sovereign

Precious Metals continued

■ PLATINUM NYMEX (\$ per Troy oz; \$/troy oz)

Close 386.7 -4.35 398.8 384.0

Open 386.7 -4.35 398.8 384.0

Price change 3.80 3.80

High 398.8 384.0

Low 384.0 370.3

Vol 303 354

Int 1

Set 356.0 -0.1 357.1 353.4

Buy 353.6 -0.1 357.1 353.4

Sell 353.6 -0.1 357.1 353.4

Open 353.6 -0.1 357.1 353.4

Close 353.6 -0.1 357.1 353.4

Vol 303 354

Int 1

Canadian exports of grain delayed

By Maggie Utley

Canadian grain exports have been delayed in recent days due to a lack of railcars and a lack of port access to the international grain market, the Canadian government says.

A monthly report on grain exports - which could provide

opportunities through the

boards of Canadian

grain and oilseed

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FT MANAGED FUNDS SERVICE

Offshore Funds

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SUB-RECOGNISED)

By Maggie Utley

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LONDON STOCK EXCHANGE

Buy programmes give a lift to UK equities

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

London's stock market, which had braced itself for the aftermath of an expected storm on Wall Street overnight, gathered itself after a soft opening and closed in reasonably good heart.

Wall Street's panicky response on Wednesday to Mr Alan Greenspan's testimony to Congress, in which he repeated his warning about the doubtful sustainability of the recent rise in US equities, had seen the Dow Jones Industrial Average slide more than 100 points, before rallying

strongly to close 55 points lower.

More worrying for global markets was the two point fall in US Treasury bonds, prompted by Mr Greenspan's warning about the potential for a pre-emptive increase in interest rates to head off inflationary pressures.

With little or no evidence of any substantial selling by the big institutions, however, the FTSE 100 index delivered a comforting performance to close 9.9 higher at 4,382.2. That left the index within striking distance of its all-time intra-day record of 4,362.4.

The FTSE 250, meanwhile, nudged ahead, finishing 2.3 points higher at 4,663.0, only around 13 points off its intra-day record,

while the SmallCap made a number of attempts to penetrate its all-time intra-day and closing highs and eventually ended 2.9 up at 2,356.2.

Helping to bolster London, as well as other European markets, was a further recovery by Wall Street yesterday. The Dow regained virtually all of an early 3 point retreat which had been prompted by some stronger-than-expected US economic news. Treasury bonds were also looking steady, trading around a half-point better as Wall Street kicked off.

Another powerful reason for the good closing performance by London was evidence of two

trading programmes, one small to medium-sized but the other of substantial proportions, and both said to have been weighted on the buy side.

The bigger of the two programmes included a block of over 7m Vodafone shares, 4.8m Prudential, 3m P & O, 3.2m Grand Met and 1.9m BAA, as well as big blocks in other leading stocks.

"It became quite clear during the day that the big funds were not interested in selling the market in any sort of size," said one marketmaker. He said the large amounts of cash washing around the market, plus a general shortage of good quality stock, meant that the institutions would

always be keen to snap up any stock coming on offer.

He also pointed out that the market was anticipating further takeover action in the short to medium term.

The expected trouncing of the Conservative Party in the Wirral South by-election, where Labour was confidently forecast to overturn an 8,000 majority in yesterday's poll, was viewed as a foregone conclusion, and had little or no impact on the market, dealers said.

Turnover, lifted by the programme trading, reached 800.8m by the 6pm cut-off point. Customer business on Tuesday was valued at £2.35bn.



Indices and ratios	FT 30	FTSE Non-Finc p/c	FTSE 100	FTSE 250	FTSE 350	FTSE All-Share	FTSE All-Share yield
	2870.6	18.63	4338.2	4683.0	2145.9	2119.74	3.54
	18.48	+1.0	+8.9	+4.1	+3.33	+3.33	+3.54
	7.24	7.17					
	2.06	2.06					

Best performing sectors	Worst performing sectors
1 Insurance	1 Tobacco
2 Electronic & Elect	2 Household Goods
3 Oil Exploration	3 Telecommunications
4 Gas Distribution	4 Transport
5 Pharmaceuticals	5 Paper Packaging

FUTURES AND OPTIONS
■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full Index point (APT)
Open Set price Change High Low Est. vol Open Int.
Mar 4530.0 4530.0 +10.0 4532.0 9213 57704
Apr 4344.0 4344.0 +9.5 4445.0 4336.0 84 7273
May 4376.0 +10.0
Jun 0 0 0 0 0 2187
■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full Index point
Mar 4858.0 +2.0
0 6435
■ FIBO 100 INDEX OPTION (LIFFE) £4388 £10 per full Index point
Open Set price Change High Low Est. vol Open Int.
Mar 4150 4150 4150 4150 4150 4150 4150
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WORLD STOCK MARKETS

Higns & Lows shown on a 52 week basis

Faster time-to-market,
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PACIFIC

INDICES

INDEX FUTURES										NORTH AMERICA															
Open/Close					Change					Open/Close					Change										
Feb 27	Feb 28	Feb 25	High	Low	Est. vol.	Open	Int.	Feb 27	Feb 28	Feb 25	High	Low	Est. vol.	Open	Int.	Feb 27	Feb 28	Feb 25	High	Low	Est. vol.	Open	Int.		
Argentina																									
General(29/12/77)	10 2105.31	21455.77	21551.38	24/2/97	15297.30	22/5/95																			
Australia																									
All Ordinaries(1/1/90)	2464.7	2483.1	2501.8	2501.70	18/2/97	2086.18	17/7/95																		
All Money(1/1/90)	971.0	976.1	986.9	1118.48	8/5/95	983.88	13/12/95																		
Austria																									
Credit Agricole(30/12/96)	408.02	408.77	404.76	408.77	26/2/97	348.19	6/9/95																		
Teased Index(2/1/91)	1235.70	1235.79	1233.45	1235.78	26/2/97	975.27	21/5/95																		
Belgium																									
BEI(20/1/91)	2145.55	2145.43	2138.30	2145.25	27/2/97	1674.98	21/5/95																		
Brazil																									
Bovespa(29/2/93)	10 8927.00	91491.0	91491.00	25/2/97	43801.00	21/5/95																			
Canada																									
Mark Min(1/1975)	10 5539.81	5605.81	5634.15	24/2/97	4887.47	16/1/95																			
Computer(4/1979)	10 5251.40	5275.40	5248.50	19/2/97	4202.70	15/5/95																			
Postcom(29/1/93)	10 3718.15	3144.14	3144.14	25/2/97	2327.38	12/1/95																			
Chile																									
ESPA Gmf(31/12/90)	10 5437.94	5443.52	5304.23	21/5/95	4888.17	16/12/95																			
Denmark																									
Dortmund(29/1/93)	540.88	540.88	538.20	540.92	20/2/97	388.40	21/5/95																		
EXX Com(28/12/90)	320.00	292.25	290.04	292.25	26/2/97	1861.67	10/1/95																		
France																									
FTSE 250(31/1/90)	1768.15	1782.80	1755.10	1786.15	27/2/97	1258.14	2/1/95																		
FTSE 100(20/12/90)	2629.40	2622.17	2627.72	2624.48	17/2/97	1802.25	11/1/95																		
Germany																									
FTZ Min(1/1/95)	1130.36	1116.27	1116.88	1138.35	27/2/97	818.55	21/5/95																		
Greece																									
Hellenic(31/12/90)	3251.1	3237.9	3237.7	3281.18	22/2/97	2205.10	21/5/95																		
Hong Kong																									
Hong Kong(29/1/93)	1367.16	1453.80	1407.85	1463.80	26/2/97	372.38	7/6/95																		
India																									
ISE Sama(1/1979)	3427.87	3384.97	3358.83	4082.25	18/6/95	2745.88	4/12/95																		
Indonesia																									
Indonesia Corp.(10/8/92)	709.92	712.60	701.30	712.88	26/2/97	512.48	21/5/95																		
Ireland																									
ISD One(29/1/93)	3027.26	3055.41	3032.78	3037.78	25/2/97	2234.81	27/5/95																		
Italy																									
Italcar Cava(29/1/93)	750.74	782.08	773.51	787.71	10/2/97	512.21	27/5/95																		
Japan																									
Japan(22/6/95)	1921.58	1892.02	1870.07	2208.28	26/6/95	7200.70	10/1/97																		
Japan 300(1/10/92)	2712.25	2713.84	273.35	318.70	26/6/95	251.04	27/1/97																		
INDEX FUTURES																									
Open/Close	Change	High	Low	Est. vol.	Open	Int.		Open/Close	Change	High	Low	Est. vol.	Open	Int.		Open/Close	Change	High	Low	Est. vol.	Open	Int.			
Open/Close	Change	High	Low	Est. vol.	Open	Int.		Open/Close	Change	High	Low	Est. vol.	Open	Int.		Open/Close	Change	High	Low	Est. vol.	Open	Int.			
Open/Close	Price	Change	High	Low	Est. vol.	Open	Int.		Open/Close	Price	Change	High	Low	Est. vol.	Open	Int.		Open/Close	Price	Change	High	Low	Est. vol.	Open	Int.

US INDICES

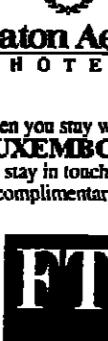
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- O -									
Orbital	16	61	12 ²	12 ²	12 ²	-	-	-	-
Oceaneering	18	7351	19 ²	18 ²	18 ²	-	-	-	-
Oceanwide	33	241	20 ²	20	20 ²	-	-	-	-
Odebrecht	18	1049	18 ²	18 ²	18 ²	-	-	-	-
Ogden Corp	140	9	7	43	42 ²	42 ²	-	-	-
Oil States	20	632	25	24 ²	24 ²	-	-	-	-
OilTech	28	2100	13 ²	13 ²	13 ²	-	-	-	-
Onward	250	1 ²	1 ²	1 ²	1 ²	-	-	-	-
Onward	10	44	10 ²	9 ²	10	-	-	-	-
Onward	20	632	25	24 ²	24 ²	-	-	-	-
Onward	0.80	16	23 ²	23 ²	22 ²	-	-	-	-
Onward	26	770	28	27 ²	27 ²	-	-	-	-
Onward	0.92	16	19	37 ²	37	-	-	-	-
Onward	1.35	13	1720	18 ²	14	44 ²	-	-	-
Onward	One Price	158	3 ²	3 ²	3 ²	-	-	-	-
Onward	Oracle	333776	40 ²	39 ²	40	-	-	-	-
Onward	Orbotech	31	767	17 ²	17 ²	17 ²	-	-	-
Onward	Orbotech	12	1476	20 ²	19 ²	19 ²	-	-	-
Onward	Orbotech	23	4256	23 ²	22 ²	22 ²	-	-	-
Onward	Orbotech	174	7 ²	7 ²	7 ²	-	-	-	-
Onward	Orbotech	3	276	5 ²	5 ²	5 ²	-	-	-
Onward	Orbotech	0.28172	409	16 ²	15	15 ²	-	-	-
Onward	Orbotech	0.50	37	12 ²	12 ²	12 ²	-	-	-
Onward	Orbotech	1.88	12	68	32 ²	31 ²	31 ²	-	-
Onward	Orbotech	452284	58 ²	53 ²	53 ²	53 ²	-	-	-
- P -									
- Q -									
Paccar	1.00	12	1933	86	83 ²	85 ²	-	-	-
Paccar	0.14	73	169	9 ²	9 ²	9 ²	-	-	-
Paccar	53	1337	87	80	80 ²	-	-	-	-
Paccar	19	3254	83 ²	82 ²	83	-	-	-	-
Paccar	54	7209	57 ²	56 ²	56 ²	-	-	-	-
Paccar	0.36	50	3222	47	45 ²	45 ²	-	-	-
Paccar	0.50	15	2100	12	12	12	-	-	-
Paccar	17	167	28 ²	27 ²	28	-	-	-	-
Paccar	1.80	18	357	46	44 ²	44 ²	-	-	-
Paccar	1.95	13	1 ²	1 ²	1 ²	1 ²	-	-	-
Paccar	Paccar	0.20	38	70	18 ²	18 ²	18 ²	-	-
Paccar	Paccar	0.98	17	895	95 ²	94 ²	94 ²	-	-
Paccar	Paccar	0.72	15	1267	31 ²	31 ²	31 ²	-	-
Paccar	Paccar	9683	43 ²	41	41 ²	41 ²	-	-	-
Paccar	Paccar	2411839	12 ²	12	12	12	-	-	-
Paccar	Paccar	1.32	27	7146	58 ²	57 ²	58 ²	-	-
Paccar	Paccar	14225	20 ²	19 ²	20	20	-	-	-
Paccar	Paccar	56	1681	25 ²	24	24 ²	-	-	-
Paccar	Paccar	31	455	18	17 ²	17 ²	-	-	-
Paccar	Paccar	19416	41 ²	34	34	34	-	-	-
Paccar	Paccar	1612214	16 ²	15	15 ²	15 ²	-	-	-
Paccar	Paccar	0.40	34	23 ²	23	23 ²	-	-	-
Paccar	Paccar	0.12	13	448	14 ²	14 ²	14 ²	-	-
Paccar	Paccar	37	3209	20 ²	19 ²	20 ²	20 ²	-	-
Paccar	Paccar	46	1647	17 ²	16 ²	16 ²	16 ²	-	-
Paccar	Paccar	7	730	5 ²	5 ²	5 ²	5 ²	-	-
Paccar	Paccar	0.68	10	188	24 ²	24	24	-	-
Paccar	Paccar	13	401	14 ²	14	14 ²	-	-	-
Paccar	Paccar	0.98	3	5	5	5	-	-	-
Paccar	Paccar	0.15	13	625	15 ²	15 ²	15 ²	-	-
Paccar	Paccar	117	2008	54 ²	50	50 ²	50 ²	-	-
Paccar	Paccar	24	4942	17 ²	16 ²	16 ²	16 ²	-	-
Paccar	Paccar	18	494	16 ²	15 ²	16 ²	16 ²	-	-
Paccar	Paccar	0.28	25	137	47	45 ²	45 ²	-	-
Paccar	Paccar	2045193	58	57	57 ²	57 ²	-	-	-
Paccar	Paccar	23	93	38 ²	38 ²	38 ²	38 ²	-	-
- W -									
Wang Lab	2884	22 ²	21 ²	22 ²	-	-	-	-	-
Wardrobe	29	485	9 ²	9 ²	9 ²	9 ²	-	-	-
Washburn	1.00	15	8688	54 ²	54	54	-	-	-
Washburn	0.91	348	25 ²	25 ²	25 ²	25 ²	-	-	-
Wausau PM	0.25	16	204	19 ²	19 ²	19 ²	-	-	-
WD-40	2.48	19	61	52 ²	52	52	-	-	-
Werner Ent	0.10	16	343	18	17 ²	17 ²	-	-	-
Western Bric	1.04	17	458	56 ²	56 ²	56 ²	-	-	-
Westoba	1817897	1042	389 ²	34 ²	34 ²	34 ²	-	-	-
Westoba	20	685	21 ²	21	21 ²	21 ²	-	-	-
Westoba	1.00	15	12	10	10 ²	10 ²	-	-	-

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